PACCAR Inc

September 18, 2006

Mr. Jeff Dhont
Remedial Project Manager
Mail Stop SFD-7-1
U.S. Environmental Protection Agency, Region IX
75 Hawthorne Street
San Francisco, CA 94105

Re: Request for Information Pursuant to CERCLA Section 104(e); former TRICO Facility; Los Angeles County, California

Dear Mr. Dhont:

This document, together with all attachments, enclosures and supplements, constitutes PACCAR Inc's and Trico's initial response to the U.S. Environmental Protection Agency's June 2, 2006, "Request for Information Pursuant to CERCLA Section 104(e); former TRICO Facility; Los Angeles County, California." PACCAR reserves the right to modify and/or supplement this response. In addition, PACCAR objects to the request and each part of the request to the extent that the request and/or any of its parts: (a) contain or are based on any misstatement of fact or any assumption based on a misstatement of fact, (b) pertain to any location and/or property other than those set forth in the response (and PACCAR's response is limited to the location and/or property set forth in the response), (c) are ambiguous and/or indefinite (in which case PACCAR's response is limited to PACCAR's understanding without attempting to address any ambiguity and/or indefiniteness), (d) are irrelevant to a legitimate purpose based on the underlying statute, and/or (e) are overbroad in scope (in which case PACCAR's response is limited to PACCAR's understanding of the reasonable scope of the request). Without waiving these or any other objections to the request and its parts, and subject to such objections, PACCAR has provided in this response the responsive, non-privileged information and documents resulting from PACCAR's reasonable and diligent efforts to obtain and provide information and documents. The documents provided herewith are Bates stamped PACCAR 00001 to PACCAR 04490. For efficiency, where a document is responsive to more than one request such document generally has been provided once. Where multiple copies of a document were present in the files there may be multiple copies in the documents provided. While PACCAR has attempted to respond completely and truthfully to the request, PACCAR reserves the right and ability to correct, change, delete and/or add information and/or documents to this response. Future correspondence regarding this matter should be directed to: Steven R. Tekosky, Esq., Tatro Tekosky, Sadwick LLP, 660 S. Figueroa Street, Suite 1450, Los Angeles, CA 90017

PACCAR welcomes the opportunity to provide this response to EPA and looks forward to continuing a positive relationship with EPA regarding these issues.

Best regards,

F.S. Benz, PE

Enclosures
cc: John Lyons, Esq. (w/o enclosures)
Steven R. Tekosky, Esq. (w/o enclosures)

P.O. Box 1518 Bellevue, Washington 98009 Telephone (425) 468-7400
PACCAR Building 777-106th Avenue N.E. Bellevue, Washington 98004

ENCLOSURE B: QUESTIONS

1. Identify those individuals who provided the knowledge, information or documents used to prepare the response to these questions. Include the full name, current title and duties, as well as past titles and duties, current address and telephone number, and tenure for each individual providing answers for any of these questions.

RESPONSE

Mr. Fred Benz, PE, Mechanical Engineer, Corporate Environmental Department
(tenure - 2002-2006)
Mr. Andrew Seiple, Legal Counsel, Corporate Law Department
(tenure - 2000-2006)

PACCAR Inc
777 106th Avenue NE
Bellevue, WA
425-468-7400

Corporate Status and Relationships

2. Please provide a brief history of PACCAR, Inc.'s ("PACCAR") corporate status and structure, including date of incorporation, merger and acquisition history, parent and subsidiary relationships, and predecessor and successor information.

RESPONSE

PACCAR Inc ("PACCAR") and its subsidiaries manufacture heavy-duty and medium-duty trucks under the Kenworth, Peterbilt, DAF and Foden nameplates, which are sold around the world. PACCAR also manufactures and markets industrial winches under the Braden, Gearmatic and Carco nameplates and competes in the truck parts aftermarket through its dealer network. PACCAR's finance and leasing subsidiaries facilitate the sale of PACCAR products in many countries worldwide.

PACCAR is a Delaware corporation with headquarters in Bellevue, Washington. The company was established as the Seattle Car Mfg. Co. in 1905 to produce railway and logging equipment. It subsequently merged with Twohy Brothers of Portland to become Pacific Car and Foundry Company. The Company was known by that name until 1972, when it changed its name to PACCAR Inc (with no punctuation). Significant acquisitions include the following:

1945 – acquired Kenworth Motor Truck Company.

1958 – acquired Peterbilt Motors Company and Dart Truck Company.

1960 – acquired a 49 percent interest in a Mexican corporation, Kenworth Mexicana S.A. de C.V.

1980 – acquired Foden Trucks in Sandbach, U.K.

1987 – acquired Trico Industries, Inc. ("Trico"), through a subsidiary merger in which Trico became a PACCAR subsidiary.

1987 – acquired Al's Auto Supply, an aftermarket retailer and wholesale distributor of auto parts and accessories.

1988 – acquired Grand Auto, Inc. Al's Auto Supply and Grand Auto Inc. were then merged into a PACCAR subsidiary called PACCAR Automotive.

1995 – acquired a Mexican company, VILPAC, S.A.

1996 – acquired DAF Trucks N.V. a truck manufacturer based in the Netherlands.

1997 – sold Trico Industries, Inc. to EVI of Houston, Texas.

1998 – acquired Leyland Trucks, a truck manufacturer based in Lancashire, England.

1999 – sold PACCAR Automotive to CSK Auto, Inc.

Additional information concerning PACCAR's corporate structure is available in the 2005 PACCAR Annual Report, a copy of which is provided, and on PACCAR's website at http://www.paccar.com/history.asp

PACCAR's principal Divisions and Subsidiaries are as follows:

TRUCKS

Kenworth Truck Company
Division Headquarters:
10630 N.E. 38th Place
Kirkland, Washington 98033
Factories:
Chillicothe, Ohio
Renton, Washington

Peterbilt
Motors Company
Division Headquarters:
1700 Woodbrook Street
Denton, Texas 76205
Factories:
Denton, Texas
Madison, Tennessee

PACCAR of Canada Ltd.
Markborough Place I
6711 Mississauga Road N.
Mississauga, Ontario
L5N 4J8 Canada
Factory:
Ste-Thérèse, Quebec

Canadian Kenworth Company
Division Headquarters:
Markborough Place I
6711 Mississauga Road N.
Mississauga, Ontario
L5N 4J8 Canada

Peterbilt of Canada
Division Headquarters:
Markborough Place I
6711 Mississauga Road N.
Mississauga, Ontario
L5N 4J8 Canada

DAF Trucks N.V.
Hugo van der Goeslaan 1
P.O. Box 90065
5600 PT Eindhoven
The Netherlands
Factories:
Eindhoven,
The Netherlands
Westerlo, Belgium

Leyland Trucks Ltd.
Croston Road
Leyland, Preston
Lancs PR26 6LZ
United Kingdom
Factory:
Leyland, Lancashire

Kenworth Méxicana, S.A. de C.V.
Kilometro 10.5
Carretera a San Luis
Mexicali, Baja California

Mexico
Factory:
Mexicali, Baja California

PACCAR
Australia Pty. Ltd.
Kenworth Trucks
64 Canterbury Road
Bayswater, Victoria 3153
Australia
Factory:
Bayswater, Victoria

TRUCK PARTS
AND SUPPLIES

PACCAR Parts
Division Headquarters:
750 Houser Way N.
Renton, Washington 98055
Dynacraft
Division Headquarters:
650 Milwaukee Avenue N.
Algona, Washington 98001

WINCHES
PACCAR Winch Division
Division Headquarters:
800 E. Dallas Street
Broken Arrow, Oklahoma
74012
Factories:
Broken Arrow, Oklahoma
Okmulgee, Oklahoma

PRODUCT TESTING,
RESEARCH AND
DEVELOPMENT
PACCAR Technical Center
Division Headquarters:
12479 Farm to Market Road
Mount Vernon, Washington
98273

DAF Trucks Test Center
Weverspad 2
5491 RL St. Oedenrode
The Netherlands

PACCAR FINANCIAL SERVICES GROUP

PACCAR Financial Corp.
PACCAR Building
777 106th Avenue N.E.
Bellevue, Washington 98004

PACCAR Financial Europe B.V.
Hugo van der Goeslaan 1
P.O. Box 90065
5600 PT Eindhoven
The Netherlands

PACCAR Capital México S.A. de C.V.
Kilometro 10.5
Carretera a San Luis
Mexicali, Baja California
Mexico

PacLease Méxicana S.A. de C.V.
Kilometro 10.5
Carretera a San Luis
Mexicali, Baja California
Mexico

PACCAR Financial Services Ltd.
Markborough Place I
6711 Mississauga Road N.
Mississauga, Ontario
L5N 4J8 Canada

PACCAR Financial Pty. Ltd.
64 Canterbury Road
Bayswater, Victoria 3153
Australia

PACCAR Leasing Company
Division of PACCAR
Financial Corp.
PACCAR Building
777 106th Avenue N.E.
Bellevue, Washington 98004

EXPORT SALES
PACCAR International
Division Headquarters:
PACCAR Building
777 106th Avenue N.E.
Bellevue, Washington 98004
Offices:
Beijing, People's Republic
of China
Jakarta, Indonesia
Manama, Bahrain
Miami, Florida
Sandbach, United Kingdom

3. Please describe the current and former relationship between PACCAR and TRICO, Inc. ("TRICO"). Please provide the dates and nature of any mergers, acquisitions, acquisition of assets, or agreements regarding historical or future liabilities. Also include any contracts, leases or partnerships between PACCAR and TRICO and the dates within which these relationships existed. Please provide any documents supporting this description.

RESPONSE

In 1987, PACCAR acquired Trico Industries, through a merger agreement, pursuant to which Trico Industries merged with a wholly owned PACCAR subsidiary, PACCAR Holding Corp. A copy of the Agreement and Plan of Merger between PACCAR and Trico Industries, Inc., dated January 9, 1987, is attached, as well as documents describing the merger transaction.

PACCAR sold Trico to EVI of Houston, Texas, through a Stock Purchase Agreement dated October 9, 1997, a copy of which is attached. In connection with that transaction, PACCAR acquired several pieces of real estate from Trico, including the parcel with the street address of 1206 W. 196th St., Torrance, CA. A copy of the quitclaim deed and related documents for that property are attached.

4. It is EPA's understanding that American Chemsolv, Inc. ("American Chemsolv") has owned, operated, and/or leased all or portions of the property in the past. Please describe any current or former relationship between PACCAR (including former TRICO) and American Chemsolv, Inc. Please provide the dates and nature of any mergers, acquisitions, acquisition of assets, or agreements regarding historical or future liabilities. Also include any contracts, leases or partnerships between PACCAR, TRICO and American Chemsolv., Inc. and the dates within which these relationships existed. Please provide any documents supporting this description.

RESPONSE

PACCAR has no information suggesting the existence of the relationships or agreements of the kinds described in this request.

5. It is EPA's understanding that Mighty Enterprises, Inc. ("Mighty Enterprises") has owned, operated, and/or leased all or portions of the property presently or in the past. Please describe any current or former relationship between PACCAR (including former TRICO) and Mighty Enterprises. Please provide the dates and nature of any mergers, acquisitions, acquisition of assets, or agreements regarding historical or future liabilities. Also include any contracts, leases or partnerships between PACCAR, TRICO, and Mighty Enterprises and the dates within which these relationships existed. Please provide any documents supporting this description.

RESPONSE

On November 16, 1987, Trico Industries Inc. ("Trico") entered into a lease with Mighty Enterprises, Inc., for the premises known as the office building at 19706 S. Normandie Avenue, Torrance, California for a month to month term. A copy of the lease is attached. The lease terminated in 1990, when the property was sold to Peter Tsai, whom PACCAR understands is the owner of Mighty Enterprises, Inc.

In 1990, Trico sold a parcel of land with a street address of 19706 S. Normandie, Torrance CA, to Peter Tsai, whom PACCAR understands is the owner of Mighty Enterprises, Inc. A copy of the sales agreement, deed, and related documents are attached.

In 1993, Trico entered into an agreement with Dynateck America, Inc., which PACCAR believes to be a company owned by Peter Tsai, for the lease, on a month to month basis, of a portion of the premises located at 1206 S. 196th St., Torrance CA. In 1995, the parties executed Amendment No. 1 to the lease, pursuant to which Mighty Enterprises, Inc. was added to the lease as an additional tenant, and the area covered by the lease was expanded to include all of the property and improvements located at that address. The lease is still in effect. A copy of the lease, and of the four amendments to the lease, are attached hereto.

6. It is EPA's understanding that Amoco, Inc. ("AMOCO") owned, operated, and/or leased the property immediately north of the property in the past. Please describe any current or former relationship between PACCAR (including former TRICO) and Amoco. Please provide the dates and nature of any mergers, acquisitions, assumption of assets, or agreements regarding historical or future liabilities. Also include any contracts, leases or partnerships between PACCAR, TRICO and Amoco and the dates within which these relationships existed. Please provide any documents supporting this description.

RESPONSE

PACCAR has no information suggesting the existence of the relationships or agreements of the kinds described in this request.

7. Please describe any current or former relationship between PACCAR (including former TRICO) and Shell Oil Company, Inc.; Shell Chemical Company, Inc.; Shell Chemical Corporation; or Shell Union Oil Corporation (collectively, "Shell"). Please provide the dates and nature of any mergers, acquisitions, acquisition of assets, or agreements regarding historical or future liabilities. Also include any contracts, leases or partnerships between PACCAR, TRICO and Shell and the dates within which these relationships existed. Please provide any documents supporting this description.

RESPONSE

PACCAR has no information suggesting the existence of any of the relationships described in this request other than the 2005 access agreement concerning the property PACCAR entered into with Shell at EPA's request. Jeff Dhont of the EPA possesses a copy of the agreement. At your request, PACCAR will be pleased to provide an additional copy.

Ownership and Operations at the Property

8. Please provide the ownership history of the parcels within the property and the operational history during the time PACCAR, TRICO, American Chemsolv, Mighty Enterprises, or other operators for which PACCAR has knowledge owned or operated on the property, as well as any previous operational history for which you have knowledge, documents, or information. Please include dates of ownership and parcels owned, description and dates of any transfer of ownership,

dates of operation and location of operations on the property, the purpose of operation, and the dates of any change in purpose or operation.

RESPONSE

Ownership and Use Prior to 1987

In 1987, PACCAR acquired ownership of Trico Enterprises, Inc. ("Trico"), which apparently owned the property at that time. The only information PACCAR has regarding the ownership and use of the property prior to 1987 comes from various reports prepared by environmental consultants retained by EPA, Trico, PACCAR, and perhaps others. PACCAR cannot vouch for the accuracy of the information prior to PACCAR's acquisition of Trico; however, the reports and documents provided herewith summarize information regarding the ownership and use of the property prior to 1987.

Ownership and Use Since 1987

At the time PACCAR acquired Trico Industries Inc. ("Trico") in 1987, Trico was apparently the owner of the property, and was using the premises for activities related to the manufacture and repair of oil field well completion equipment. Trico ceased those operations in approximately 1992. In 1997, PACCAR sold Trico to EVI of Houston, Texas. PACCAR does not possess any of Trico's operational records for the property, other than as may be expressly referred to in these various Responses.

In 1987, Trico leased part of the westerly portion of the premises to Mighty Enterprises, Inc., for storage use.

In 1990, Trico sold the westerly portion of the premises, having a street address of 19706 S. Normandie, Torrance CA, to Peter Tsai, the owner of Mighty Enterprises.

In 1993, Trico leased a portion of the remaining portion of the premises to Dynateck America Inc. It is PACCAR's understanding that Dynateck stored patio furniture on the premises and ran a related seamstress operation. In 1995, this lease was amended to add Mighty Enterprises, Inc. as an additional tenant, and to expand the premises leased to the entire remaining property.

9. Describe the functional operations at the property for each of PACCAR, TRICO, American Chemsolv, Mighty Enterprises, or other operators for which PACCAR has knowledge, prior to and after PACCAR's ownership, including specifically what product(s) or intermediate(s) was (were) manufactured, produced, synthesized, treated, modified, or stored; what service(s) was(were) provided; and all operational purposes and activities for which the property and the facilities on the property were used.

RESPONSE

PACCAR has no information about the operation of American Chemsolv as described in this request other than discussed in the response to questions 8 above. Our understanding of Mighty Enterprises' operation is limited to what has been observed when on site and described by Mighty Enterprises. On the 19706 S. Normandie parcel, it appears that Mighty completes final assembly and machining on imported machine pieces such as milling machines and lathes. Those operations appear to involve painting and solvent use, machining with cooling and cutting fluids, and packing and unpacking equipment. The operation is best described by Mighty since PACCAR is unaware of the full line of services and operations employed. On the 1206 South 196th Street parcel that is leased from PACCAR, Mighty/Dynatech has stated that they use that property only for storage of patio furniture and receipt of heavy crated equipment for Mighty. Their operation has evolved to include a seamstress operation to make umbrella coverings for imported umbrella masts, and unpacking of machinery crates. Off and on since they began leasing the parcel in 1993, and unbeknownst to PACCAR until approximately 2002, Mighty had employed a few machining stations within the former Building A. PACCAR has demanded that this activity be eliminated. Those activities are described further in response #20.

PACCAR never had any operations on site. Trico Industries is the only subsidiary of PACCAR with any operational history at the Torrance site. According to documents provided herewith, Trico Industries was a manufacturer of oil well completion equipment. It appears that the former Trico operation at the Torrance plant produced well centralizers and performed some repairs to Trico manufactured products. Trico had three buildings on site: Building A where machining operations occurred, Building B where storage, warehousing and a loading dock were located, and Building C where warehousing and storage occurred. According to EPA's "Preliminary Assessment Report" from 1992:. "*When the site was active, manufacturing operations were similar to a machine shop and consisted of forming of parts from sheets or rolls of steel. The steel was electrically heated for many production operations which eliminated the need for chemical cleaning of the steel. Parts were formed using blanks and punch presses, then rolled into the desired shape and assembled by welding or by fittings such as pins. The only wastes produced in the process were scrap metal and welding scrap. Finished products were coated with brown paint in a dip tank. The products were suspended from a conveyor on the ceiling and passed through the dip tank. Reportedly, other than the size of the operation, there have been no significant changes in site activities in the last 40 years (1952-1992).*" Provided herewith are environmental site assessments of the former Trico Industries site and EPA's Preliminary Assessment Report from 1992, which set forth information relevant to this question.

10. Please provide any knowledge, documents or information about the boundaries of the former TRICO, Inc. operations at the property prior to and after TRICO's and PACCAR's ownership. Please refer to parcels and/or provide a map. If parcels

have been subdivided or merged in the intervening years, please note and indicate where this has occurred.

RESPONSE

PACCAR has no knowledge responsive to this request other than what has been set forth above and as described on site drawings provided herewith. Responsive documents, including survey drawings by Dalcin Cummins Associates, are included in this and other responses, together with other environmental reports, permits and transactional documents, all of which contain responsive information.

11. Please describe any relationship between the operation of former TRICO at the property, and the operation of Amoco at the property immediately north of former TRICO. Such relationships may include but should not be limited to transfer or sale of chemicals or wastes between the companies or facilities, common use of waste handling and/or chemical storage structures and facilities, common sewer line connections or drainage structures, or shared operations and processing, etc.

RESPONSE

PACCAR has no information suggesting the existence of any of the relationship as described in this request.

12. Please provide any knowledge, documents or information related to the *chemical use history and presence of chemicals and hazardous substances* at the property for each of PACCAR, TRICO, American Chemsolv, Mighty Enterprises, or other operators for which PACCAR has knowledge, documents or information. This should include but not be limited to all feedstock chemicals, raw materials, chemical intermediates, chemical products, stored chemicals, recycled or reclaimed chemicals, chemicals awaiting recycling or reuse, processing chemicals, or solvents (including but not limited to substances containing or consisting of PCE, TCE, DCE, TCA, DCA, vinyl chloride, methylene chloride; methyl ethyl ketone, acetone, or other ketones; benzol, petroleum spirits, xylene, toluene, benzene, ethylbenzene, chlorobenzene, or naphthalene (or any chemical isomers thereof)[2].

[Request Footnote[2] The terms "PCE," "TCE," "DCE," "TCA," and "DCA" are defined under the "Definitions" heading in Enclosure A to this letter.]

RESPONSE

PACCAR has no operational history on this site other than the Trico subsidiary, and has no information about the operation of American Chemsolv or Mighty Enterprises as requested other than as set forth above. Based on information available and known to PACCAR, it appears that Trico operated a dip-tank painting operation that used a "SE2279 Brown Dipping Primer/Paint". The enamel paint mixture included; in addition to the paint base; 0.99% Naptha Lacquer Diluent B, 9.97% N-Butyl Acetate, and 22.62% Toluene. The facility had Propane apparently used for fork-lift fuel that consisted of 92% propane, 5% Propylene, and 3% Butane. Additionally the facility had Chevron AW Hydraulic Oil 46, apparently for use as hydraulic fluid for use in hydraulic equipment on site. Other materials may be referenced in the attached documents. On Mighty's 19706 South Normandie Ave. parcel a 500 gallon UST was installed in 1960 and removed in 1987. The UST was used to store gasoline, and according to SCS' 1987 reporting, there were no impacts to the UST removal excavation. Also according to known records, all chemicals stored on site were maintained within storage areas that employed secondary containment. In addition to documents provided under response #9 above, all Trico Toxic Release Inventory Form "R" documents and the LA County Fire Department Hazardous Materials Business Plans and Contingency Plans in PACCAR's possession are provided herewith.

13. Please describe the quantities of the chemicals used at the property that were provided in response to the last question. Provide the maximum quantities of each chemical present at the property at any point during the operations at the property of PACCAR, TRICO, American Chemsolv, Mighty Enterprises, or other operators for which PACCAR has knowledge, documents or information.

RESPONSE

PACCAR has no operational history on this site other than the Trico subsidiary, and has no information about the operation of American Chemsolv or Mighty Enterprises as requested. Other than the information provided under response #12 above, PACCAR has no other information about exact quantities of the chemicals used at the property, and no information on the maximum quantities. According to the information found on permits for the site, it appears that the Enamel Paint dip tank was ~700 gallons (located along the outside North wall of Building A), the Naptha Solvent tank was ~300 gallons (located along the outside North wall of Building A), and the Propane tank was ~490 gallons (located in the open yard north of Building C). It is not clear how much hydraulic oil was stored on site but it appears that oil was stored in drummed quantities, which may have been between 2-6 drums on site based on the known size of the storage area (located along the outside East wall of Building A). On the 19706 South Normandie Ave parcel a 500 gallon UST was installed in 1960 and removed in 1987. The UST was used to store unleaded gasoline, and according to SCS' 1987 reporting, there were no impacts to the UST removal excavation. As stated above, according to the records provided herewith, all chemicals stored on site were maintained within storage areas that employed secondary containment, with the exception of the propane tank. Permit information related to this question has been included under response #21.

14. Provide a map depicting the location(s) at the property of all former and current structures which received, held, stored, or enclosed any of the substances listed or discussed in response to the last two questions. Indicate which substances were received, stored, held, or enclosed by each structure[3] at any point in time.

Examples of such structures are, but are not limited to, above ground tanks, below ground tanks, open tanks, dip tanks, pipelines, pits, surface impoundments, clarifiers, cesspools, spray booths, trenches, ditches, product or waste recycling or rework units, drums, bins, shipping and commercial containers; or other receptacles, equipment or enclosures used during the operation of the facility.

[Request Footnote[3] Please list the actual chemical constituents if you have this knowledge, information or documents. Note that terms such as "solvents" or "hydrocarbons" are insufficiently specific and not responsive, unless you are declaring that you have no information, knowledge, or documents regarding the specific constituents.]

RESPONSE

PACCAR has no operational history on this site other than the Trico subsidiary, and has no information about the operation of American Chemsolv or Mighty Enterprises as requested. Based on information available and known to PACCAR, including available copies of permits as stated above; the following chemicals are believed to have utilized, stored and handled on site:

- The dip-tank painting operation used a "SE2279 Brown Dipping Primer/Paint", ~700 gallon AST (stored along outside North wall of Building A),
- The enamel paint mixture included in addition to the paint base; 0.99% Naptha Lacquer Diluent B, 9.97% N-Butyl Acetate, and 22.62% Toluene, ~300 gallon AST (stored along outside North wall of Building A)
- Propane apparently used for fork lift fuel that consisted of 92% propane, 5% Propylene, and 3% Butane, ~490 gallon AST (stored in open yard north of Building C).
- Chevron AW Hydraulic Oil 46, apparently for use in hydraulic equipment on site. It is not clear how much hydraulic oil was stored on site but it appears that oil was stored in drummed quantities, which may have been between 2-6 drums on site (along outside East wall of Building A).
- On Mighty's 19706 South Normandie Ave parcel a 500 gallon UST was installed in 1960 and removed in 1987. The UST was used to store unleaded gasoline, and according to SCS' 1987 reporting, there were no impacts to the excavation and the location is depicted in the report.

It is not clear where these chemicals were received on site other than extrapolating that the loading dock on the North side of Building B may have been used. As stated above, according to known records, all chemicals stored on site were maintained within storage areas that employed secondary containment, with the exception of the propane tank. To the best of PACCAR's knowledge no pits, surface impoundments, clarifiers, cesspools, spray booths, trenches, ditches, product or waste recycling or rework units were employed in handling, storage, or use of the chemical products used on site and identified under this request above.

In addition to the documents provided under responses 9 and 10 above, all Trico's Form "R" documents and the LA County Fire Department Hazardous Materials Business Plan in PACCAR's possession for this site are provided under response#12. Additionally a recent Drain Line Survey report (AMEC 2005) is also included. All reports have facility drawings that illustrate the believed location of the items in question.

15. Identify the location at the property of any and all machine shops, vehicle maintenance and degreasing operations at the property by PACCAR, TRICO, American Chemsolv, Mighty Enterprises, or other operators for which PACCAR has knowledge, documents or information. For each such location, whether the chemical substances used at the location contained or consisted of PCE, TCE, DCE, TCA, DCA, vinyl chloride, methylene chloride; methyl ethyl ketone, acetone, or other ketones; benzol, petroleum spirits, xylene, toluene, benzene, ethylbenzene, chlorobenzene, or napththalene (or any chemical isomers thereof.)

RESPONSE

PACCAR has no operational history on this site other than the Trico subsidiary, and has no information about the operation of American Chemsolv or Mighty Enterprises as requested. Based on information available and known to PACCAR, please see the responses #9, #10, #12, #13, and #14 above. From the records available, it appears that other than hydraulic oil and waste oils, only petroleum spirits, toluene, and xylene were used on site with respect to the chemicals listed above for this response #15.

16. If proprietary or trade-name solvents are provided in answer to last four questions above, please identify the chemical constituents of each. If documents, knowledge, or information within your possession do not identify all constituents, provide those for which you have knowledge or information, and any supporting documents. Please also indicate for each such solvent whether it contains or consists of PCE, TCE, DCE, TCA, DCA, vinyl chloride, methylene chloride; methyl ethyl ketone, acetone, or other ketones; benzol, petroleum spirits, xylene, toluene, benzene, ethylbenzene, chlorobenzene, or napththalene (or any chemical isomers thereof) and which such chemicals each solvent contains.

RESPONSE

PACCAR has no operational history on this site other than the Trico subsidiary, and has no information about the operation of American Chemsolv or Mighty Enterprises as requested. Based on information available and known to PACCAR, PACCAR is not aware of any proprietary or trade-name solvents being used on site in any significant "process" quantity. As mentioned in responses #12 through #15 above, our records indicate that only the following chemicals were used in any significant "process" quantity.

- Paint: SE2279 Brown Dipping Primer/Paint,
- Paint Solvent: 0.99% Naptha Lacquer Diluent B, 9.97% N-Butyl Acetate, and 22.62% Toluene.
- Propane: consisting of 92% propane, 5% Propylene, and 3% Butane.

- and Chevron AW Hydraulic Oil 46, as hydraulic fluid

It is expected that Toluene, Xylene and perhaps Mineral Spirits were also used on site to some degree. Please refer to the documents referred to in responses #12 through #14 above.

17. Please provide knowledge, documents or information related to the *waste streams* at the property during the ownership or operations of PACCAR, TRICO, American Chemsolv, Mighty Enterprises, or other operators for which PACCAR has knowledge, documents or information. For each waste stream, provide all knowledge, documents or information related to the process that produced it and its chemical content, including but not limited to whether it contains or consists of PCE, TCE, DCE, TCA, DCA, vinyl chloride, methylene chloride; methyl ethyl ketone, acetone, or other ketones; benzol, petroleum spirits, xylene, toluene, benzene, ethylbenzene, chlorobenzene, or napththalene (or any chemical isomers thereof). Provide the maximum quantity of waste produced in each waste stream per month during these operations.

RESPONSE

PACCAR has no operational history on this site other than the Trico subsidiary, and has no information about the operation of American Chemsolv or Mighty Enterprises as requested. Based on information available and known to PACCAR, the following information is provided.

- According to EPA's investigation of the former Trico operation, as reported in EPA's "Preliminary Assessment Report" from 1992: "*The only wastes produced in the process were scrap metal and welding scrap.*"
- It has been described that there was a machine cooling water stream that was discharged through a clarifier in the southeast corner of the property. Historical records of installation and closure are not available, yet it was apparently cleaned out and abandoned at some point in the past. The cooling water stream is not well described in documents available to PACCAR, but it appears that water was circulated aboveground in a heat exchange loop within Building A where it appears that contaminants were isolated from the water stream. Knowledge or information about the quantity or quality of this waste stream is unknown. Please refer to response #27 and the "Clarifier Removal" Work Plan and Report provided by Hart Crowser and dated October 22, 2004 for recent closure documentation and a description of the clarifier and machine cooling water discharge.
- It has also been described that a "Cesspool" located in the southeast corner of the property was installed in 1957 based on H_2O Sciences July 1995 report. The cesspool was supposedly used for sanitary wastes up until it was abandoned in the 1960's according to Regional Water Quality Control Board records, again as indicated in H_2O Sciences July 1995 report. However, SCS reports that it was not even installed until 1968 so the history is not clear. It is known that in the early 1970's the sanitary sewer was installed in the area. No other information is known about a cesspool other than there are references in the reports that it was

cleaned out at some point in time, and then filled in and covered probably sometime near 1987. SCS also reports that another cesspool was installed near the office building on the 19706 South Normandie parcel, yet no information is available to confirm or refute that statement.

- It has been described that a vehicle wash area was located in the center of the site where a clarifier was located. The water discharged from the wash area seems to have been sent through a "Central Clarifier." Knowledge or information about the quantity or quality of this waste stream is unknown. PACCAR has no historical records of the closure of the clarifier. A follow-on excavation is planned this Fall to remove the former Central Clarifier and follow the discharge piping, although it was reported to have been cleaned and properly abandoned at some time in the past.
- The Paint Dip Tank operation is believed to have emitted Toluene and Xylene as it is described in EPA's 1992 "Preliminary Assessment Report" as having emitted Toluene and Xylene. Knowledge or information about the quantity or quality of this purported waste stream, if any, is unknown. In addition to the ESAs for the facility provided in response to responses #12 through #15 above, all Trico Toxic Release Inventory Form "R" documents and the LA County Fire Department Hazardous Materials Business Plan in PACCAR's possession for this site are provided under response #12.
- Recent environmental investigations of the site have produced Investigative Derived Wastes (IDW). IDW-soil after sampling, analysis and profile has either gone to American Remedial Technologies for incineration, if hazardous, or to a Waste Management facility if non-hazardous. IDW-water is usually contaminated groundwater with a variety of solvents and it is sent to DeMenno/Kerdoon for treatment. One occurrence of a non-hazardous IDW-rinseate water was disposed of at a Waste Management facility. A recent Asbestos abatement generated asbestos solid waste that was sent to Waste Management's Antelope Valley landfill and Lead-Based Paint abatements have generated three (3) drums of lead paint debris that was sent to Kinsbursky Brothers in Anaheim for concrete recycling. IDW waste documentation is provided herewith, along with reports and other related copies of manifests held by PACCAR from those recent investigations.

18. Please describe and provide documents regarding any *waste handling and waste disposal* at the property by PACCAR, TRICO, American Chemsolv, Mighty Enterprises, or other operators for which PACCAR has knowledge, documents or information. Describe the methods of management of these wastes prior to their disposal, recycling, sale or transport. Please describe and provide documents regarding:

    a. How, when and where such waste substances were generated, stored, treated, transported, disposed or otherwise handled by PACCAR, TRICO, American Chemsolv, Mighty Enterprises, or other operators for which PACCAR has knowledge, documents or information.

b. Provide a map depicting the location of all former and current structures which received wastes or hazardous wastes, including but not limited to waste solvents containing or consisting of PCE, TCE, DCE, TCA, DCA, vinyl chloride, methylene chloride; methyl ethyl ketone, acetone, or other ketones; benzol, petroleum spirits, xylene, toluene, benzene, ethylbenzene, chlorobenzene, or napththalene (or any chemical isomers thereof) and chemical mixtures containing or consisting of these compounds. For *each* of these, please list the specific chemical constituents that it received or contained at any point in time[4].

Request Footnote[4] Please list the actual chemical constituents if you have this knowledge, information or documents. Note that terms such as "solvents" or "hydrocarbons" are insufficiently specific and not responsive, unless you are declaring that you have no information, knowledge, or documents regarding the specific constituents.]

Examples of such structures may include, but are not limited to, above ground tanks, below ground tanks, dip tanks, portable or mobile tanks, pipelines and drains, pits, dry wells, evaporation ponds, wastewater treatment systems, surface impoundments, trenches, ditches, clarifiers, cesspools, product or waste recycling or rework units; other receptacles, equipment or enclosures used during the operation of the facility; drums, sumps, spray booths, leach fields, sewer inlets, storm drain inlets, waste piles, bins, waste piles and landfills.

RESPONSE

PACCAR has no operational history on this site other than the Trico subsidiary, and has no information about the operation of American Chemsolv or Mighty Enterprises as requested. Please refer to responses #13, #14, #15, #16, and #17 above that provide descriptions of what is known about any and all hazardous material storage and handling and waste handling and waste disposal on the former Trico site. To PACCAR's knowledge, there was no waste disposal at the property that PACCAR is aware of other than possibly at the reported former cesspool and two clarifiers mentioned above. According to documents available to PACCAR, all these structures were reportedly cleaned out and closed at some point as described in response #17 above. A recent Drain Line Survey report (AMEC 2005) is also included that discusses available knowledge about pipelines and drains, sumps, sewer inlets, storm drain inlets, and storm water trenches. According to records available to PACCAR, there are no records that show the use of portable or mobile tanks, pits, evaporation ponds, wastewater treatment systems, surface impoundments, ditches, product or waste recycling or rework units; other receptacles, equipment or enclosures used during the operation of the facility; spray booths, leach fields, waste piles, bins, waste piles and landfills. An April 1957 permit to install a drywell has been described. Whether such a drywell was constructed and, if so, its location are unknown to PACCAR. Additionally, a map has been provided that shows suspected locations of historical storage areas. The recent Drain Line Survey report (AMEC 2005) is also included.

19. In supplementation of your response to the last question, if there were any dry wells at the property during operations or activities by PACCAR, TRICO, American Chemsolv, Mighty Enterprises, or other operators for which PACCAR has knowledge, please provide:

a. The date that the well was installed and the date(s) within which it received hazardous substances or wastes;

RESPONSE
An April 1957 permit to install a drywell has been described. Whether such a drywell was constructed and, if so, its location are unknown to PACCAR. There is no record of hazardous substances or wastes having been discharged to a drywell on the property.

b. The total depth of the dry well;

RESPONSE
According to the "cryptic" permit, if the drywell had been constructed, it might have been perhaps 25' to 26' deep.

c. What materials were used to backfill the well borehole, (e.g. sand, gravel, bentonite, clay, cement, etc.) when it was constructed, if any, as well as at any time after it was constructed;

RESPONSE
No records are available or known to exist that would provide this information -- or whether such a drywell was constructed

d. Whether the dry well contained a casing and if so, at which depth intervals under the ground a casing is present;

RESPONSE
It is unknown whether such as drywell was constructed.

e. The construction material of which any casing was composed (e.g. stainless steel, or PVC);

RESPONSE
The 2004 excavation report concerning BL-06 shows a picture of what may be the drywell, and, if so, it is a concrete casing.

f. How the dry well was used during operations of the facilities at the property;

RESPONSE
It is unknown whether such as drywell was constructed.

g. Whether the dry well has been destroyed and if so, the date it was destroyed, and the procedures used in the destruction / abandonment of the well.

RESPONSE

It is unknown whether such a drywell was constructed. If it had been constructed, it was likely filled and covered prior to PACCAR's 1987 purchase of Trico.

RESPONSE (to information request 19 in general)

PACCAR has no operational history on this site other than the Trico subsidiary, and has no information about the operation of American Chemsolv or Mighty Enterprises as requested.

20. Please describe and provide documents regarding any *releases of hazardous substances* at the property by PACCAR, TRICO, American Chemsolv, Mighty Enterprises, or other operators for which PACCAR has knowledge, documents or information. Please describe and provide documents regarding:

   a. When, where and how each such release occurred;

   b. The amount of each hazardous substance released, and the area and volume of impacted soil.

   c. Any and all activities undertaken in response to each such release or threatened release, including the notification of any governmental agencies about the release.

RESPONSE

PACCAR has no operational history on this site other than the Trico subsidiary, and has no information about the operation of American Chemsolv, and only recent tenant information about Mighty Enterprises as requested.

For the **Trico Industries** Operation please see the response 12 for annual estimates of Toluene and Xylene emissions as reported under the Toxic Release Inventory Form R and LA County Fire Department Hazardous Material Inventory documents. It is possible that the Form R overstates the amount of emissions, if any, that actually occurred. Additionally, the following incident is described in the site documents in PACCAR's possession:

1) There is a record of an April 1983 notice of violation for discharge of waste oils, hydraulic oils and cutting oils to ground surfaces. Based on the information available, it appears that the discharge of oils was to the storm water drainage ditch that runs along the eastern edge of the property. It appears that others in the area had similar violations and a clean up occurred along about 200' of the

drainage ditch. There is no other information available in PACCAR records, and the volume of spill and the amount of cleanup are unknown.

PACCAR is aware of the following information related to the **Mighty USA** operation;

1) Between 1993 and 2006, as a result of the machining operations, it appears that there may have been draining of oil from machinery that is unpacked on the parcel. Recent site investigations since 2001 on the 1206 South 196th Street parcel have also indicated fresh impacts from oil spills that appear to be from drained oil, machining operations and either improper disposal or spills on site. Mighty has been instructed to eliminate that operation and immediately clean up any spills that have occurred. The volume of spill and the amount of cleanup are unknown.
2) In 2004 near the center of the site, mineral spirits were detected in the very near (<15' bgs) surface soil column. The age of release is estimated to be very recent as opposed to a historical release. Please see the "Soil Removal near BL-06" report produced by Hart Crowser in October 2004, and provided in response #17 for a complete description. The volume of spill is unknown; the amount of soil excavated and disposed of for the BL-06 excavation was 120 tons.

PACCAR brought these practices and lease violations to Mighty's attention. PACCAR has demanded that Mighty stop all machining operations and eliminate draining oil from machines on the site.

In addition to the documents provided above, all Trico Toxic Release Inventory Form "R" documents and the LA County Fire Department Hazardous Materials Business Plan and Contingency Plan in PACCAR's possession for this site are provided under response #12.

21. Describe and provide permits and documents regarding any permits issued under State, local, or Federal environmental laws for operators on the property including, but not limited to waste or wastewater discharge permits, National Pollutant Discharge Elimination System (NPDES) permits, pretreatment permits; air, water, fire department, or hazardous material storage permits; or pursuant to the Resource Conservation and Recovery Act (RCRA). Supply any and all identification numbers supplied by local governments, the State of California, the EPA or any other governmental agency related to the handling, treatment, storage, or disposal of hazardous wastes on the property. Provide all Resource Conservation and Recovery Act (RCRA) Identification Numbers issued to you by EPA, a State, or local government, for your operations related to the property.

RESPONSE

PACCAR has no operational history on this site other than the Trico subsidiary, and has no information about the operation of American Chemsolv or Mighty Enterprises. Information in response to this question that is known to PACCAR is as follows:

- Old EPA ID Number: CAD981450828 (expired)
- Temporary EPA ID Number: CAC002581802
  (Generated by Hart Crowser for 19706 S. Normandie Ave.- cancelled 6/15/05)
- Current EPA ID Number: CAL000288892 (new December 2004)
- Emission Reduction Credit, Certificate AQOO1503, 12/04095
  South Coast Air Quality Management District
- Los Angeles County Sanitation District Industrial Waste Water Discharge Permit: HAHQ36-00-9481 (pre ~1987)
- Permit M59885 SF – Air Pressure Tank (Cal OSHA)
- Permit L18847 SFS – LPG Tank (Cal OSHA)
- Permit M 21678 – Paint Dip Tank South Coast A.Q.M.D
- Permit – LA County Fire Dept – Gasoline UST removal
- Public Health License – Hazardous Waste Control #04430
- LA County Fire Dept. – Hazardous Material Plan (6/24/87)
- Cal OSHA safety compliance notice – Air Tank (5/8/87)
- South Coast A.Q.M.D. – Air Emission Report for 1986
- State Hazardous Waste Disposal Report – 1986
- Torrance Fire Dept. Hazardous Material Disclosure Report (12/1/86)
- Notice of Violation #268806 (4/25/83) – Oil Spill and Cleanup

All permits are copied and included with this submittal for this response # 21 with the exception of the Industrial Waste Water Discharge Permit, which could not be found.

Previous Environmental Sampling

22. Please provide knowledge, documents or information which provide data and results of any and all samples collected at the property, including soil, soil gas, air, or groundwater samples; field screening data; immunoassay results; waste characterization samples; waste discharge / permit compliance samples, or samples for environmental investigations whether private or required by a regulatory agency. Please provide knowledge, documents or information showing sample locations and results; and any reports presenting, interpreting, and/or discussing such results. Also include knowledge, documents or information regarding any boring logs, geological reports, well logs, and well locations. Finally, include any photographs of sampling, excavations or other activities related to soil management at the property.

RESPONSE

At the request of the Regional Water Quality Control Board – Los Angeles Region (RWQCB), investigative activities began on the Site and adjacent properties to assess soil and groundwater conditions in the area. In 1987 and/or 1988, SCS Engineers completed an investigation included drilling and soil sampling of nine boreholes and completion of two monitoring wells (MW-1 and MW-2). These excavations encountered two water bearing units, a shallow water bearing unit encountered at approximately 65 to 80 feet below ground surface (ft bgs) and a deeper water bearing unit encountered at approximately 115 ft bgs, on the Site (Figure 2). Results of the investigation boreholes indicated elevated concentrations of chlorinated volatile organic compounds (VOCs) in the vicinity of what was believed to have been a Cesspool as well as concentrations of chlorinated VOCs in the area of the centrally located clarifier. TCE and perchloroethylene (PCE) were also detected in groundwater samples collected (SCS, 1987).

In 1993, Dames and Moore installed and sampled three wells (SWL-0029, SWL-0030, and SWL-0031) on north-northeast of the Site for Del Amo Superfund site investigation. Wells SWL-0029, SWL-0030, and SWL-0031 were installed in Middle Bellflower B Sand, Middle Bellflower C Sand, and Gage Aquifer respectively. Results of Dames and Moore investigation from these wells did not contain detectable concentrations of solvents.

In 1995, H_2O Science installed two more shallow monitoring wells (MW-3 and MW-4) and collected soil and groundwater samples from the Site (Figure 2). Soil sampling results revealed TCE concentrations as high as 8.8 milligrams per kilogram (mg/kg) and PCE concentrations as high as 3.5 mg/kg and in MW-3. Groundwater collected from a depth of 60 ft bgs indicated concentrations of 30,000 micrograms per liter (ug/l) TCE and 15,000 ug/l PCE in MW-3 and 30,000 micrograms per liter (ug/l) TCE and 10,000 ug/l PCE in MW-4 (H_2O Science, 1995).

In 1995, Hart Crowser conducted an Environmental Site Assessment and collected groundwater samples from existing monitoring wells MW-1 through MW-4 on the Site (Figure 2). Concentrations of PCE and TCE were confirmed with additional detections of cis-1,2-Dichloroethylene (DCE) (Hart Crowser, 1995). In 1998 Hart and Crowser abandoned monitoring wells MW-1 and MW-2.

In 2000, Hart Crowser installed three monitoring wells (MW-5, MW-6, and MW-7) into the upper water bearing unit. Results indicated presence of VOCs, PCE, and TCE in east/southeastern and northwestern portion of the Site.

In 2003, Hart Crowser conducted a Supplemental Site Investigation, which included drilling of twenty additional soil borings and installation of nine temporary well points. Results of the soil investigation indicated that the soil samples across the Site contained metals (arsenic, barium, beryllium, chromium, cobalt, copper, lead, mercury, molybdenum, nickel, selenium, silver, vanadium, and zinc) at concentrations below the EPA Region 9 industrial preliminary remediation goals (PRGs) in the soil across the Site. VOCs were detected particularly in the northwest portion of the Site near the location of former ASTs and one detectable value in the northeast corner of the Site near the former clarifier. Groundwater analysis revealed concentrations of chlorinated VOCs similar to previous investigations (Hart Crowser, 2003). The data suggested that contamination appears to have originated from the north and northeast.

To further evaluate the extent of contamination from the initial supplemental Site Investigation, Hart Crowser conducted a second Supplemental Site Investigation in 2004. Field activities included the drilling and sampling of seven more soil borings beneath Building A, near the clarifier in the Southeast corner of the Site, and along the easement north portion of the property. Four borings were drilled beneath Building A, with a total of forty-four soil samples taken every 5' starting at 5' bgs and continuing to groundwater at 55' bgs. Only five of the samples taken beneath Building A contained TCE concentrations above the PRGs, and all five were within the capillary fringe. VOC concentrations were not detected above PRGs beneath the Clarifier. However, beneath the north/northeast property easement, TCE was detected in soil samples collected at depths greater than 10 ft bgs with concentrations exceeding PRGs and the concentrations generally increasing with depth. Based on the results of the investigation, Hart Crowser concluded that concentrations of TCE were primarily detected in the capillary fringe and immediately down-gradient from the former trenches on the Del Amo and the adjacent American Polystyrene properties.

Finally, the "Soil Removal near BL-06" and the "Clarifier Removal" completed in 2004 are the only known excavations that were completed on site. Please refer to the "Soil Removal near BL-06" Work Plan and Report provided by Hart Crowser and dated October 22, 2004 for more information on the excavation that took place near the center of the site.

Copies of these reports are submitted as part of this and other responses.

23. Please identify all contractors or consultants used in any sampling or evaluation of contamination at the property including such contractors' contact information.

RESPONSE

Please see the response to response #22 above.

24. Please identify (and list in chronological order) any and all cleanup and maintenance activities associated with structures which have handled hazardous substances at the property, performed by or paid for by PACCAR, TRICO, American Chemsolv, Mighty Enterprises, or other operators for which PACCAR has knowledge, documents or information. This should include but not be limited to any soil excavations, soil treatments, tank removals, drum removals, and spill cleanups. For each activity, provide date and nature of the activity, and describe the location, affected soil or debris volume, sampling locations and results, chemical contaminants targeted by the action, soil or debris storage location(s) and conditions, and how, when and where such soils or debris were treated, transported, disposed or otherwise handled by PACCAR, TRICO, American Chemsolv, Mighty Enterprises, or other operators for which PACCAR has

knowledge, documents or information. Include information describing any soil that was maintained in piles, bins, trucks, or in another unconsolidated form.

RESPONSE

PACCAR has no operational history on this site other than the Trico subsidiary, and has no information about the operation of American Chemsolv or Mighty Enterprises. Please refer to responses to responses #12 through #17, #25 and #27 for the entirety of information that PACCAR is aware of related to this question.

25. Please provide the names and addresses of all persons or companies, including your own if applicable, which transported soil and/or debris on, to, or from the property for treatment, disposal, or storage of chemical substances or wastes.

RESPONSE

Investigative Derived Wastes (IDW) are described in response to response #17 above, please refer to the "Soil Removal near BL-06" Work Plan and Report provided by Hart Crowser and dated October 22, 2004 and the "Clarifier Removal" Work Plan and Report provided by Hart Crowser and dated October 22, 2004. All soil from both excavations were collected into one stockpile, analyzed for contaminants, profiled for disposal and after indicating low levels of contaminants as a non-hazardous waste, was sent to Waste Management for disposal.

Consultant: Hart Crowser,	Ravi Limaye, Engineer 301 East Ocean Blvd Long Beach, CA 90802
Excavation Contractor:	Remedial Construction Services 1101 California Avenue Corona, CA 92881

Copies of both reports and disposal documentation are included separately and also within the reports in response to this question.

26. Please fully describe any demolition or improvements that occurred while you had an interest in the property, and the deposition of debris from such activities.

RESPONSE

Other than the limited abatement activities for both Lead-based Paint and Asbestos, to the best of our knowledge, there have been no demolition or improvements that have occurred since PACCAR took ownership of Trico around 1987.

27. Please provide copies of any documents you have pertaining to the treatment or disposal of soils excavated from the property (e.g., invoices, contracts, correspondence and financial records), including the processing, storing, treating, disposing or handling of hazardous substances or materials at the property.

RESPONSE

Investigative Derived Wastes (IDW) are described in response to response #17 above. PACCAR is aware of only two excavations that have occurred on site since ownership in 1987. The "Soil Removal near BL-06" and the "Clarifier Removal" completed in 2004 are the only known excavations that were completed on site. Please refer to the "Soil Removal near BL-06" Work Plan and Report provided by Hart Crowser and dated October 22, 2004 for more information on the excavation that took place near the center of the site. A follow-on excavation is planned this Fall to remove the former Central Clarifier and follow the discharge piping, excavating soils along its' entire length. Also please refer to the "Clarifier Removal" Work Plan and Report provided by Hart Crowser and dated October 22, 2004 for a description of the excavation in and around the area in the southeast corner of the site. All soil from both excavations were collected, analyzed for contaminants, profiled for disposal, and, after indicating low levels of contaminants as a non-hazardous waste, was sent to Waste Management for disposal. Copies of both reports and disposal documentation are included.

28. Please provide knowledge, documents or information describing the topography, storm water flow, drainage, and/or runoff on the property and any changes to the aforementioned description while you or TRICO owned and/or operated a facility on the property.

RESPONSE

The surface of the Site is located between 40' and 45' above mean sea level with very little topographic relief. Please refer to the Phase I and Phase II ESA's for the facility provided under response #9, the Data Summary provided under response #15, and the recent Drain Line Survey report provided under responses #14 and #18 for further information for this request.

Other

29. Did PACCAR, TRICO, American Chemsolv, Mighty Enterprises, or other operators for which PACCAR has knowledge, documents or information ever *receive a transfer from* the Shell Synthetic Rubber Plant[5] (regardless of whether there was an associated monetary transaction in relation to such transfer) of hazardous substances or mixtures containing or consisting of hazardous substances, including but not limited to PCE, TCE, DCE, TCA, DCA, vinyl chloride, methylene chloride; methyl ethyl

ketone, acetone, or other ketones; benzol, petroleum spirits, xylene, toluene, benzene, ethylbenzene, chlorobenzene, or napththalene (or any chemical isomers thereof)? If so, please describe the reason and nature of this transaction. If any such substances were received for chemical storage, chemical recycling, or as a staging or loading area for disposal, please so-indicate and identify the dates within which this occurred. Provide all documents related to such transfers, including but not limited to shipping and hazardous waste manifests, invoices, purchase orders, and accounting documents.

[Request Footnote[9] The Shell Synthetic Rubber Plant operated between 1942 and 1972 and was bounded by 190th Street on the north, Vermont Street on the east, Del Amo Boulevard on the south, and a north-south line running through the east boundary of the property, parallel and east of Normandie Avenue.]

RESPONSE

PACCAR has no information suggesting the existence of any of the relationships described in this request.

30. Did PACCAR, TRICO, American Chemsolv, Mighty Enterprises, or other operators for which PACCAR has knowledge, documents or information ever *transfer to* the Shell Synthetic Rubber Plant (regardless of whether there was an associated monetary transaction in relation to such transfer) hazardous substances or mixtures containing or consisting of hazardous substances, including but not limited to PCE, TCE, DCE, TCA, DCA, vinyl chloride, methylene chloride; methyl ethyl ketone, acetone, or other ketones; benzol, petroleum spirits, xylene, toluene, benzene, ethylbenzene, chlorobenzene, or napththalene (or any chemical isomers thereof)? If so, please describe the reason and nature of this transaction. If any such substances were received for chemical storage, chemical recycling, or as a staging or loading area for disposal, please so-indicate and identify the dates within which this occurred. Provide all documents related to such transfers, including but not limited to shipping and hazardous waste manifests, invoices, purchase orders, and accounting documents.

RESPONSE

PACCAR has no information suggesting the existence of any of the relationships described in this request.

30. Did PACCAR, TRICO, American Chemsolv, Mighty Enterprises, or other operators for which PACCAR has knowledge, documents or information ever *receive a transfer from* the McDonnell Douglas Plant[10] (regardless of whether there was an associated monetary transaction in relation to such transfer) of hazardous substances or mixtures containing or consisting of

hazardous substances, including but not limited to PCE, TCE, DCE, TCA, DCA, vinyl chloride, methylene chloride; methyl ethyl ketone, acetone, or other ketones; benzol, petroleum spirits, xylene, toluene, benzene, ethylbenzene, chlorobenzene, or napththalene (or any chemical isomers thereof)? If so, please describe the reason and nature of this transaction. If any such substances were received for chemical storage, chemical recycling, or as a staging or loading area for disposal, please so-indicate and identify the dates within which this occurred. Provide all documents related to such transfers, including but not limited to shipping and hazardous waste manifests, invoices, purchase orders, and accounting documents.

[Request Footnote[6] The former McDonnell Douglas plant, later purchased by Boeing Corporation, lay just west of Normandie Avenue, directly across Normandie from the property, and between 190th Street and Francisco Street. It manufactured, primarily, aircraft parts.]

<u>RESPONSE</u>

PACCAR has no information suggesting the existence of any of the relationships described in this request.

32. Did PACCAR, TRICO, American Chemsolv, Mighty Enterprises, or other operators for which PACCAR has knowledge, documents or information ever *transfer to* the McDonnell Douglas Plant (regardless of whether there was an associated monetary transaction in relation to such transfer) hazardous substances or mixtures containing or consisting of hazardous substances, including but not limited to PCE, TCE, DCE, TCA, DCA, vinyl chloride, methylene chloride; methyl ethyl ketone, acetone, or other ketones; benzol, petroleum spirits, xylene, toluene, benzene, ethylbenzene, chlorobenzene, or napththalene (or any chemical isomers thereof)? If so, please describe the reason and nature of this transaction. If any such substances were received for chemical storage, chemical recycling, or as a staging or loading area for disposal, please so-indicate and identify the dates within which this occurred. Provide all documents related to such transfers, including but not limited to shipping and hazardous waste manifests, invoices, purchase orders, and accounting documents.

<u>RESPONSE</u>

PACCAR has no information suggesting the existence of any of the relationships described in this request.

RESPONSE
#2

PACCAR

2005 ANNUAL REPORT

PACCAR 00001

STATEMENT OF COMPANY BUSINESS

As a multinational technology company, PACCAR manufactures heavy-duty, on- and off-road Class 8 trucks sold around the world under the Kenworth, Peterbilt and DAF nameplates. The company competes in the North American Class 6-7 market with its medium-duty models assembled in North America and sold under the Peterbilt and Kenworth nameplates. In addition, DAF manufactures Class 6-7 trucks in the Netherlands and Belgium for sale throughout Europe, the Middle East and Africa and distributes Class 4-7 trucks in Europe manufactured by Leyland Trucks (UK). PACCAR manufactures and markets industrial winches under the Braden, Gearmatic and Carco nameplates and competes in the truck parts aftermarket through its dealer network. Finance and Leasing subsidiaries facilitate the sale of PACCAR products in many countries worldwide. Significant company assets are employed in financial services activities. PACCAR maintains exceptionally high standards of quality for all of its products: they are well-engineered, are highly customized for specific applications and sell in the premium segments of their markets, where they have a reputation for superior performance and pride of ownership.

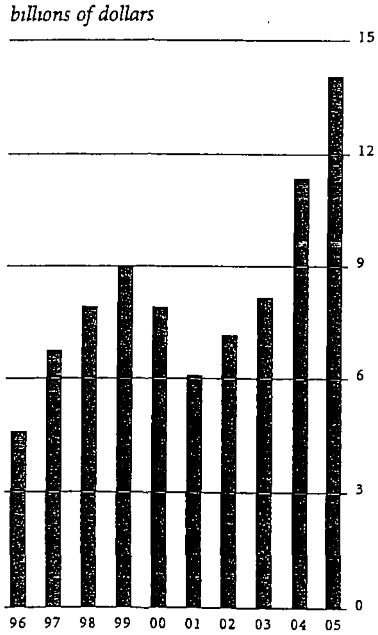
CONTENTS

FINANCIAL HIGHLIGHTS

	2005	2004
	(millions except per share data)	
Truck and Other Net Sales and Revenues	**$13,298.4**	$10,833.7
Financial Services Revenues	**759.0**	562.6
Total Revenues	**14,057.4**	11,396.3
Net Income	**1,133.2**	906.8
Total Assets:		
Truck and Other	**5,359.5**	5,247.9
Financial Services	**8,355.9**	6,980.1
Truck and Other Long-Term Debt	**20.2**	27.8
Financial Services Debt	**6,226.1**	4,788.6
Stockholders' Equity	**3,901.1**	3,762.4
Per Common Share:		
Net Income:		
Basic	**$ 6.60**	$ 5.19
Diluted	**6.56**	5.16
Cash Dividends Declared	**2.87**	2.75

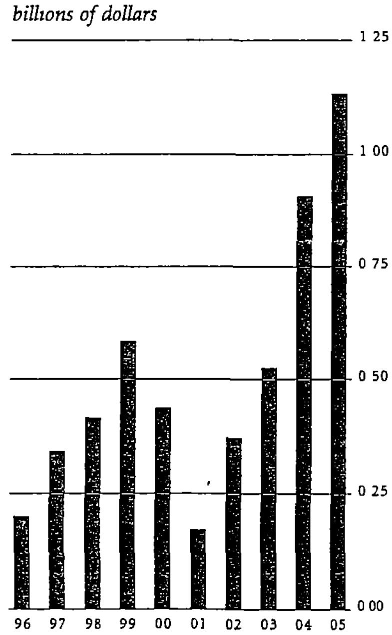
REVENUES

billions of dollars



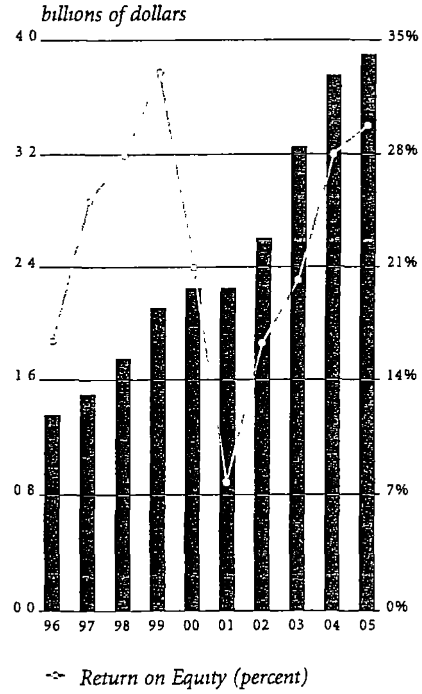
NET INCOME

billions of dollars



STOCKHOLDERS' EQUITY

billions of dollars



PACCAR had a record year in 2005 due to its superior product quality, strong markets, technology-led process efficiency and excellent results from aftermarket parts and financial services. PACCAR increased its share to record levels in the European heavy- and medium-duty truck markets. Market share was strong in North America, with record truck deliveries in both the heavy- and medium-duty segments. Customers benefited from PACCAR's ongoing investments in technology, which enhanced manufacturing efficiency, extensive support programs and new product development. PACCAR delivered a record 148,500 trucks and sold nearly $1.7 billion of aftermarket parts and services.

Net income of $1.13 billion was the highest in the company's 100-year history, and revenues of $14.06 billion were 23 percent higher than in the previous year. Dividends of $2.87 per share were declared during the year, including a special dividend of $2.00. PACCAR increased its regular quarterly dividend twice during the year, raising its quarterly payout by 25 percent, and has increased its dividend 345 percent in the last four years.

The North American truck market in 2005 grew 24 percent from the previous year, as a strong economy generated increased freight tonnage and transport companies increased their fleet sizes. The Class 8 truck market in North America, including Mexico, was 307,000 vehicles, compared to 248,000 last year. The European heavy truck market in 2005 was a record 259,000 vehicles, compared to 238,000 in 2004, as customer demand remained strong in spite of slow growth in the euro zone economy.

Competitors experienced improved results due to the stronger market, though their high operating costs, including the burden of expensive and underfunded pension plans and post-retirement health-care programs, continue to negatively impact their performance.

PACCAR continued to set the standard for financial performance for capital goods companies worldwide. After-tax return on beginning shareholder equity (ROE) was 30.1 percent in 2005, compared to 27.9 percent in 2004. The company's 2005 after-tax return on revenues (ROR) was 8.1 percent, a new record. Excluding the $64.0 million one-time tax charge in 2005 for the repatriation of foreign earnings, ROE was 31.8 percent and ROR was 8.5 percent. Sales and profits were driven by strong truck and parts margins and new finance contracts for over 44,000 units. PACCAR shareholder equity tripled over the last decade, to $3.90 billion, as a result of strong earnings. PACCAR's total shareholder return averaged 27 percent per year, versus 9 percent annual return for the Standard & Poor's 500 Index, over that same ten-year period.

INVESTING FOR THE FUTURE — PACCAR's record profits, excellent balance sheet, and intense focus on quality, technology and productivity enhancements have enabled the company to consistently invest in its products and processes during all phases of the business cycle. Productivity, efficiency and capacity improvements continue to be implemented in all manufacturing and parts facilities. Many of PACCAR's facilities established new production records during the year in terms of quality metrics, inventory turns and assembly hours. PACCAR is recognized as one of the leading technology companies in the world, and innovation continues to be a cornerstone of PACCAR's success. PACCAR has integrated new technology to profitably support its own business, as well as its dealers, customers and suppliers. One hundred and thirty new dealer locations were opened worldwide, and more are planned to enhance PACCAR's global distribution network.

Capital investments reached $300 million for the first time in the company's history. Major capital projects during the year included construction of a state-of-the-art Kenworth manufacturing facility in Mexico, the launch of the DAF XF105 and the fuel-efficient PACCAR MX 12.9-liter engine, the introduction of the aerodynamic Peterbilt 386, installation of additional paint robotics in manufacturing facilities, including robotic chassis paint, the opening of the new North American Transportation Center and the start of construction of a new PACCAR Parts Distribution Center.

PACCAR is judiciously examining business opportunities in Asia, with the primary focus being China and India. The company has sold product in China since 1908, and is cognizant of the benefits of a long-term planning horizon for the region.

SIX SIGMA — Six Sigma is integrated into all business activities at PACCAR and has been adopted at 150 of the company's suppliers and many of the company's dealers. Its statistical methodology is critical in the development of new product designs and manufacturing processes. In addition, the company introduced "High Impact Kaizen Events" (HIKE), which leverage Six Sigma methods with production flow improvement concepts. The HIKE projects conducted in 2005 were instrumental in delivering improved performance across the company. Over 8,000 employees have been trained in Six Sigma and 5,200 projects have been implemented since its inception. Six Sigma, in conjunction with Supplier Quality, has been instrumental in delivering improved logistic performance by the company's suppliers.

INFORMATION TECHNOLOGY — PACCAR's Information Technology Division (ITD) is an important competitive asset for the company. PACCAR's use of information technology is centered on developing and integrating software and hardware that will enhance the quality and efficiency of all operations throughout the company, including the seamless integration of suppliers, dealers and customers.

One of the major successes that ITD and Purchasing achieved during the year was the construction and inauguration of the North American Transportation Center. The Center utilizes a sophisticated logistic platform to track, real-time, supplier parts shipment to PACCAR facilities, resulting in world-class just-in-time inventory deliveries. Other major accomplishments include increased activities at the Electronic Dealerships in Renton and Eindhoven. Over 11,000 dealers, customers, suppliers and employees have experienced the interactive demonstration modules showing the application of automated sales and service kiosks, tablet PCs and Radio Frequency Identification (RFID). New features include an electronic sales and finance office and an electronic service analyst.

In 2005, ITD provided breakthrough advancements in paint robotics software, wireless vehicle diagnostic solutions, infrastructure capacity upgrades and installation of over 3,600 new personal computers.

TRUCKS — U.S. and Canadian Class 8 retail sales in 2005 were 287,000 units, and the Mexican market totaled 20,000. Western Europe heavy truck sales were 259,000 units.

PACCAR's Class 8 retail sales market share in the U.S. and Canada was a strong 23.1 percent in 2005. DAF's heavy-duty truck market share in Europe increased to a record 13.7 percent. Industry Class 6 and 7 truck registrations in the U.S. and Canada numbered 101,000 units, a 5 percent increase from the previous year. In Europe, the 6- to 15-tonne market was 77,000 units, a 3 percent increase from 2004. PACCAR's North American and European market shares in the medium-duty truck segment both exceeded 9 percent, as the company delivered a record 25,000 medium-duty trucks and tractors in 2005.

The capital goods and financial services industries were impacted in 2005 by the negative cost effect of rapidly escalating commodity prices, especially steel and oil, higher interest rates and two devastating hurricanes. However, PACCAR's excellent pricing stability and long-term supplier partnerships enabled increased production and profits to be realized, facilitated by the tremendous team effort of the company's purchasing, materials and production personnel.

Another highlight in 2005 was PACCAR's product quality, which continued to be recognized as the leader in the industry. Kenworth, Peterbilt and DAF earned industry awards as quality leaders in the Class 6, 7 and 8 markets.

Other North American PACCAR truck plant accomplishments include the completion of the company's new Kenworth Mexico facility, installation of robotic cab paint systems in all factories and the attainment of record production levels in five of six plants.

Almost 50 percent of PACCAR's business is generated outside the United States, and the company is realizing excellent synergies globally in product development, sales and finance activities and manufacturing. DAF Trucks achieved record truck production, sales and profits, while increasing its market share for the sixth consecutive year. DAF introduced its new XF105 and the PACCAR MX engine to excellent reviews.

Leyland Trucks, the United Kingdom's leading truck manufacturer, completed significant facility restructuring, such as installing an industry-first robotic chassis paint line, which increased capacity, improved quality and enhanced efficiency. Foden Trucks announced that it would be retiring vehicle production in mid-2006, after 150 years of industry leadership.

PACCAR Mexico (KENMEX) had another record profit year as the Mexican economy grew and truck fleets were renewed. KENMEX recorded gains in plant efficiencies as production reached an all-time high. The largest capital investment in KENMEX history doubled production capacity, consolidated support services and built a new fabrication center.

PACCAR Australia achieved excellent profit, sales and market share in 2005, supported by the second-highest production level in the company's history. The introduction of new Kenworth models and expansion of the DAF product range led to a 24 percent heavy-duty market share in 2005. Aftermarket parts sales delivered another year of record performance.

PACCAR International, responsible for exporting trucks and parts to over 100 countries, had another record year due to strong sales in South Africa and Latin America.

AFTERMARKET TRUCK PARTS — PACCAR Parts had an excellent year in 2005 as it earned its 13th consecutive year of record profits. With sales of nearly $1.7 billion, the PACCAR Parts aftermarket business is the primary source for replacement parts for PACCAR products, and supplies parts for other truck brands to PACCAR's dealer networks in many regions of the world.

Over five million Class 8 trucks are operating in North America and Europe, and the average age of these vehicles is estimated to be over six years. These trucks create an excellent platform for future parts and service business provided by a growing number of Kenworth, Peterbilt and DAF service facilities.

PACCAR Parts continues to lead the industry with technology that offers competitive advantages at PACCAR dealerships. Managed Dealer Inventory (MDI) is now installed at over 800 PACCAR dealers worldwide. MDI utilizes proprietary software technology to determine parts-replenishment schedules. Significant investments were also made in Call Center technology to improve the customer experience with its 24-hour/365-day-a-year roadside assistance centers. PACCAR Parts enhanced its Connect program, a software application for fleet-maintenance management. The enhanced program is a Web-based application providing fleets the opportunity to better manage vehicle operating costs.

FINANCIAL SERVICES — At year-end, the PACCAR Financial Services (PFS) group of companies had operations covering three continents and 15 countries. The global breadth of PFS has enabled the portfolio to grow to more than 144,000 trucks and trailers, with total assets exceeding $8.3 billion. PFS is the preferred funding source in North America for Peterbilt and Kenworth trucks, financing 25 percent of dealer sales in 2005.

PACCAR Financial Corp.'s (PFC) conservative business approach, coupled with PACCAR's strong S&P credit rating of AA- and complemented by the strength of the dealer network, enabled PFC to earn a record profit in 2005. PFC recorded increased finance volume in 2005 by offering a comprehensive array of finance, lease and insurance products. PFC enhanced its credit-analysis program, Online Transportation Information System (OTIS), by extending the system to Canadian customers and dealers.

PACCAR Financial Europe (PFE) completed its fourth year of operations and increased profits as it served DAF dealers in 11 Western European countries. PFE provides wholesale and retail financing for DAF dealers and customers and finances almost 20 percent of DAF's dealer sales.

PACCAR Leasing (PacLease) earned its 12th consecutive year of record operating profits and placed in service over 5,700 vehicles in 2005, a new record. The PacLease fleet grew to 23,500 vehicles as 17 percent of the North American Class 6-8 market chose full-service leasing to satisfy their equipment needs. PacLease substantially strengthened its market presence in 2005, increasing the network to 245 outlets, and represents one of the largest full-service truck rental and leasing operations in North America.

A LOOK AHEAD — PACCAR celebrated its Centennial year by earning record financial results — the best year in its 100-year history. PACCAR's 22,000 employees enabled the company to distinguish itself as a global leader in the technology, capital goods, financial services and aftermarket parts businesses. Superior product quality, technological innovation and balanced global diversification are three key operating characteristics that define PACCAR's business philosophy.

In North America, strong economic growth is driving freight shipments and tonnage to record levels. These market indicators should continue to have a positive impact on the truck market in 2006. Euro zone GDP is improving, which, in combination with a strong vehicle-replacement cycle and the increased movement of goods throughout the expanded European Union, is generating increased demand for trucks. The company continues to take aggressive steps to manage production rates and operating costs, consistent with its goal of achieving profitable market share growth. PACCAR's excellent balance sheet ensures that the company is well positioned to continually invest in all facets of its business, strengthening its competitive advantage. Other fundamental elements contributing to the exciting prospects of this vibrant, dynamic company are geographic diversification, with almost 50 percent of revenues generated outside the U.S., modern manufacturing and parts-distribution facilities, leading-edge and innovative information technology, conservative and comprehensive financial services, enthusiastic employees and the best distribution networks in the industry.

As PACCAR enters its second century, the company and its employees are focused on strong, quality growth. The embedded principles of integrity, quality and consistency of purpose continue to define the course in PACCAR's daily operations. PACCAR has successfully evolved as a leader in several industries since its founding in 1905. The proven business strategy — delivering technologically advanced, premium products and an extensive array of tailored aftermarket customer services utilizing an independent global distribution channel — enables PACCAR to achieve strong earnings growth. The strength of the business foundation provides a platform to examine growth opportunities in complementary business segments worldwide. PACCAR is enhancing its stellar reputation as a leading technology company in the capital goods and finance businesses.

Mark Pigott

MARK C. PIGOTT
Chairman and Chief Executive Officer
February 20, 2006

PACCAR 00008

DAF vaulted to new sales, profit and production records in 2005, strengthening its competitive position with strong market-share gains in the over 15 tonne and 6-15 tonne segments. This outstanding achievement reflects the success of its new highly efficient, captivating products and comprehensive customer support network.

DAF introduced a new flagship model, the XF105, to its comprehensive product range during 2005, reinforcing its reputation as Europe's commercial vehicle quality and resale-value leader. The XF105 presents a dazzling exterior that complements the characteristic aerodynamic elements of the widely acclaimed XF95. The vehicle offers a new interior and a completely restyled exterior, including a new upper and lower grille and a newly designed steel front bumper. It also features optional xenon headlights with clear Lexan glass, cat-eye combi-lights in the bumper and unique integrated spotlights in the Super Space Cab roof.

Inside, the XF105 sets best-of-class standards in ergonomics, productivity and comfort — enhancing DAF's industry-leading position for luxury that has long been defined by its cab interiors. From the stylish new door panels to the high-tech instrument panel and dashboard layout to the sumptuous sleeping compartment, uncompromising quality is the vehicle's hallmark.

The XF105 is powered by the new PACCAR MX engine, also introduced this year, with power outputs of 410 hp, 460 hp and 510 hp. An innovative new chassis layout repositions air tanks and other components inside frame rails to maximize fuel tank capacity.

DAF unveiled a tractor unit variant of its CF85 series that offers an ultra-low fifth-wheel setting for customers who want to maximize payload in large-volume transport applications. Trailers with an interior height of three meters can haul more volume per journey — up to 100 cubic meters — while remaining within Europe's legal maximum height of four meters and maximum trailer length of 13.65 meters.

The highly successful Leyland-built CF65 distribution truck has earned a reputation for class-leading payloads. The new CF65 delivers a payload of almost 13.5 tonnes at 19 tonnes GVW. By making use of the innovative chassis frame and design attributes of the LF55 series, the chassis weight of the CF65 has been further enhanced to increase customer profit potential.

DAF continued to strengthen its extensive distribution network of over 1,000 dealer and service points and is completing construction of its new full-service dealership in Frankfurt, Germany. DAF has more than doubled its market share in Germany — Europe's largest truck market — since 1996.

DAF constructed a new engine machining factory and substantially upgraded its manufacturing facilities in Eindhoven and Westerlo.

Capitalizing on market momentum, DAF unveiled a new flagship model: the XF105
From its striking exterior to its luxurious interior appointments, the XF105 presents new benchmarks in reliability, operating efficiency and driver comfort for long-haul operators.

PACCAR 00010

Peterbilt sales of both heavy- and medium-duty trucks set new company standards in 2005. Outstanding product quality, superior vehicle resale value and innovative styling continue to reflect Peterbilt's well-deserved reputation as the "Class" of the industry.

In one of the most significant new product introductions in the company's history, Peterbilt unveiled its 2006 lineup of Class 8 conventional trucks and tractors: Models 379, 386, 385, 378 and 357. All the vehicles incorporate new technologies that improve performance, reliability and serviceability, and redesigned operating environments that optimize driver productivity, ergonomics and comfort.

The new lineup of trucks offers best-in-class cab interiors with unparalleled fit and finish and driver amenities that rival luxury automotive quality. Three new interior trim levels meet a full range of market requirements. State-of-the-art multiplexed instrumentation enhances reliability and enables efficient analysis by technicians via PACCAR's new wireless Electronic Service Analyst (ESA) tool. Restyled driver- and passenger-side doors improve ground visibility by 17 percent, enhancing the driver's field of vision. A new heating and air conditioning (HVAC) system boosts airflow by 20 percent and delivers precise climate control throughout the vehicle.

The sleek new aerodynamic Model 386, with a full range of detachable sleepers, expands Peterbilt's offering of premium aerodynamic trucks —complementing the Model 387, with its spacious, integrated sleeper—and provides customers with fuel-efficient operation in all applications. The new vehicle design features a contoured sunvisor, side chassis fairings, dramatically sloped hood, integrated headlamps, swept-back fender design and form-fitted bumper—elements that together improve aerodynamic efficiency by 10 percent.

Peterbilt expanded its market share in vocational and construction industries. The Model 357 offers over 300 new options designed specifically for construction, gravel and off-road applications.

Peterbilt's Denton, Texas, manufacturing facility celebrated its 25th anniversary in 2005 and became the first North American truck plant to install advanced, fully integrated robotic cells to weld aluminum fuel tanks.

The Peterbilt dealer network reached a record level with 220 locations throughout the U.S. and Canada. Peterbilt's TruckCare services program also expanded, serving more customers with complimentary roadside assistance and service scheduling, TruckCare Services Cards and QuickCare preventive maintenance. Peterbilt's TruckCare Maintenance Manager updates service bulletins electronically and provides a reminder for vehicles within 1,000 miles of factory-recommended routine service intervals.

Peterbilt's sleek new aerodynamic Model 386 debuted in 2005, offering customers another premium choice for improved fuel economy, increased productivity, optimum serviceability, greater resale value and industry-leading ergonomics.

PACCAR 00012

Kenworth performed superbly in 2005 by earning five J.D. Power and Associates Awards in Customer Satisfaction for its Class 8 and Class 7 vehicles and outstanding dealer service.* "The World's Best" introduced many new product designs and achieved record profits, sales and production.

Kenworth sales of Class 8 and Class 6/7 vehicles increased to record levels in 2005, reflecting enhanced product functionality, excellent operating efficiency and strong driver preference for the complete range of vehicles.

Two significant production milestones were celebrated by Kenworth in 2005. Kenworth marked the production of its 700,000th truck in its 61-year history, and recognized the Chillicothe, Ohio, plant's production of its 250,000th truck since the plant's opening in 1974.

Kenworth demonstrated its leadership in technology and innovation with the introduction of its new Class 8 models. A new cab interior with world-class automotive quality, multiplexed electronic instrumentation and increased driver comfort enhances the productive Kenworth experience on and off highway.

The state-of-the-art instrument panel significantly enhances reliability and functionality. Servicing has also become easier with the newly launched Electronic Service Analyst (ESA), a wireless, computer-based diagnostics tool that helps technicians quickly and efficiently verify instrument functions.

New options introduced on select Kenworth models include a factory-installed collision-avoidance system, electronic vehicle-stability control, a keyless-entry security system and adaptive cruise control.

Kenworth made significant capital investments in its factories, adding robotic base-coat and clear-coat paint at the Chillicothe, Ohio, plant for enhanced quality and productivity. More than 1,600 computers and tablet PCs are in service at Kenworth manufacturing facilities, making each plant a wireless network able to access data in real time. Kenworth added Class 8 production to its medium-duty vehicle assembly facility in Ste. Thérèse, Quebec.

Kenworth's Six Sigma tools compressed the time required to design and introduce new products, improved production efficiency and capacity, and generated numerous quality enhancements.

Heavy Duty Trucking magazine selected Kenworth's factory-installed exhaust system that recirculates heat into dump truck bodies in cold climates as one of its Nifty Fifty best new product introductions of the year. *RoadStar* magazine honored Kenworth's eCommerce effort in merchandising with its Most Valuable Product (MVP) award.

The strong Kenworth dealer network operates 284 locations in the U.S. and Canada. Kenworth's PremierCare® program expanded in 2005, serving more customers with roadside assistance, preventive maintenance, express services, fleet card and electronic parts inventory management.

Kenworth's reputation for manufacturing premium-quality trucks that satisfy both owners and drivers is reflected in the many coveted industry awards the company has earned in the last few years. This T800, popular with fleets and owner/operators alike, combines an extraordinarily durable, lightweight chassis design with advanced truck technologies to minimize operating expenses

PACCAR 00013

* *"Highest in Customer Satisfaction with Heavy-Duty Truck Dealer Service," "Highest in Customer Satisfaction among Pickup & Delivery Segment Class 8 Trucks" and "Highest in Customer Satisfaction among Over the Road Segment Class 8 Trucks" J D Power and Associates 2005 U S Heavy-Duty Truck Customer Satisfaction Study℠ "Highest in Customer Satisfaction among Conventional Medium-Duty Trucks" and "Highest in Customer Satisfaction with Medium-Duty Truck Dealer Service" J D Power and Associates 2005 Medium-Duty Truck Customer Satisfaction Study℠ www jdpower com*

PACCAR Australia dominated the Australian heavy-duty truck market again in 2005, with excellent profits, sales, market share and production. Kenworth defines trucking in Australia, delivering custom-built quality with superior reliability.

PACCAR Australia, the continent's leading producer of a complete range of commercial vehicles, strengthened its position in the high-horsepower segment with more than 61 percent of the market in 2005. Kenworth posted strong gains in sales to vocational applications, where its new products — such as the T604 — have proven to deliver significant productivity enhancements.

PACCAR Australia reached an important milestone in 2005, delivering its 30,000th Kenworth truck since it began production in 1971. The T650 livestock hauler, rated at 140 tonnes GCM and configured as a triple road train, will operate in some of the roughest environments in Australia.

In 2005, PACCAR Australia introduced the T350 Agitator, a lightweight yet heavy-duty cement mixer model that provides a half tonne more payload than competitive trucks. An agile and versatile performer, the T350 offers all the maintenance advantages of a conventional plus the maneuverability and visibility of a cab-over — ideal for negotiating metropolitan streets and construction sites.

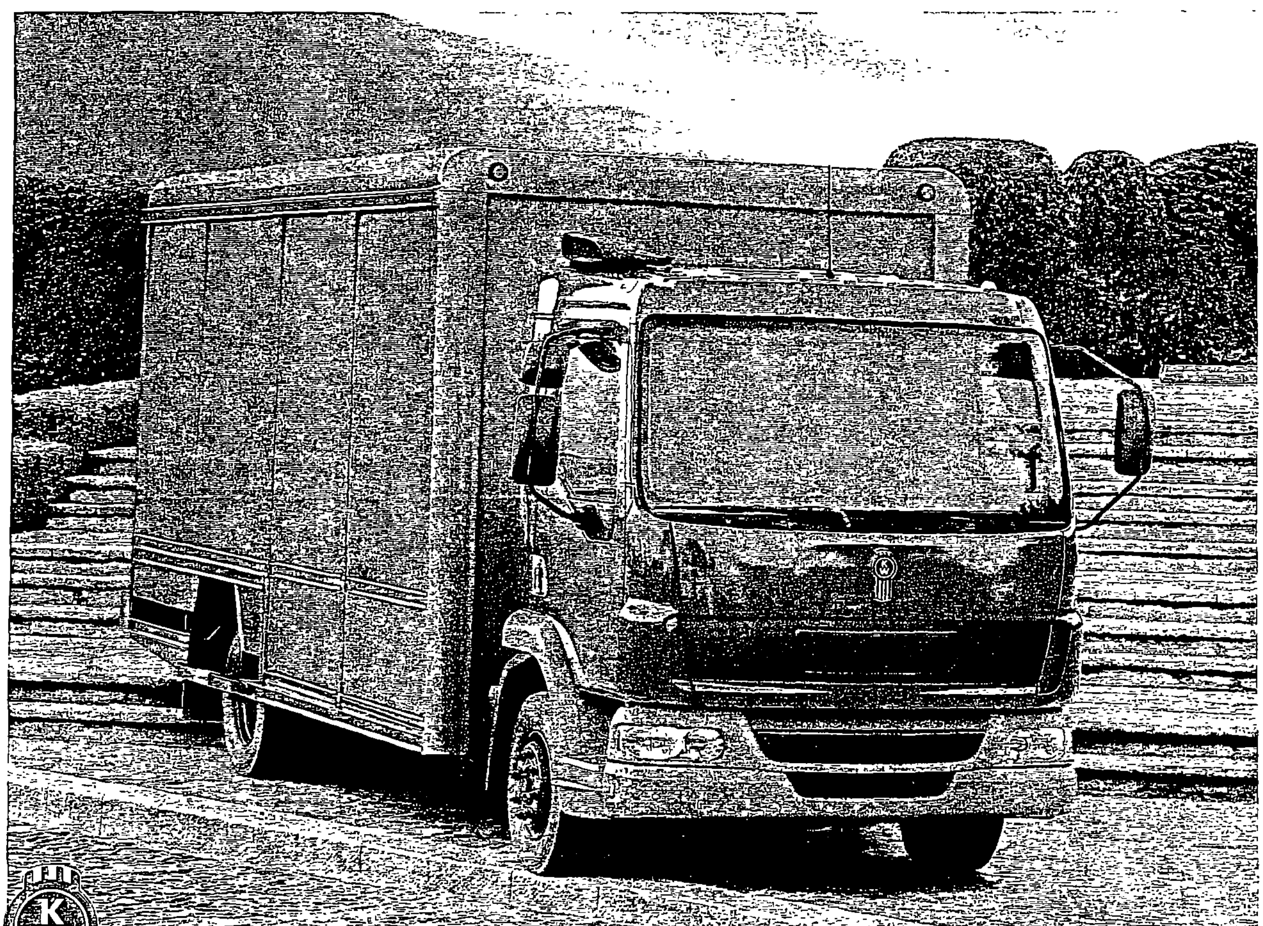
PACCAR Australia unveiled the Kenworth T350 Agitator in 2005, a cement mixer capable of carrying an extra half tonne of payload per trip compared to competitive vehicles — an immediate productivity gain and significant cost benefit over the life of the truck

PACCAR Mexico (KENMEX) enhanced its leadership in the competitive Mexican market — accounting for more than 53 percent of heavy-duty tractor sales — and extended a tradition that has made Kenworth the most revered nameplate for over 45 years.

KENMEX set new records for sales, profits and production levels in 2005, strengthening its positions in over-the-road and medium-duty markets. KENMEX also set new standards for driver comfort when it unveiled Kenworth's exciting world-class interior enhancements for its T600, T800, T2000 and W900 Class 8 models.

Kenworth's new Class 6/7 KW45 and KW55 — based on the versatile DAF LF series — are becoming increasingly popular in metropolitan delivery applications, where their excellent maneuverability, visibility and ergonomics offer significant productivity advantages.

KENMEX completed the largest capital investment program in its history with a $70 million expansion of its truck factory. The state-of-the-art production facility doubles in size to 508,000 square feet and incorporates leading manufacturing technology — including paint robotics and production-line information systems — to increase assembly capacity by 50 percent. KENMEX also increased the country's most extensive parts and service network to 102 dealer facilities nationwide.

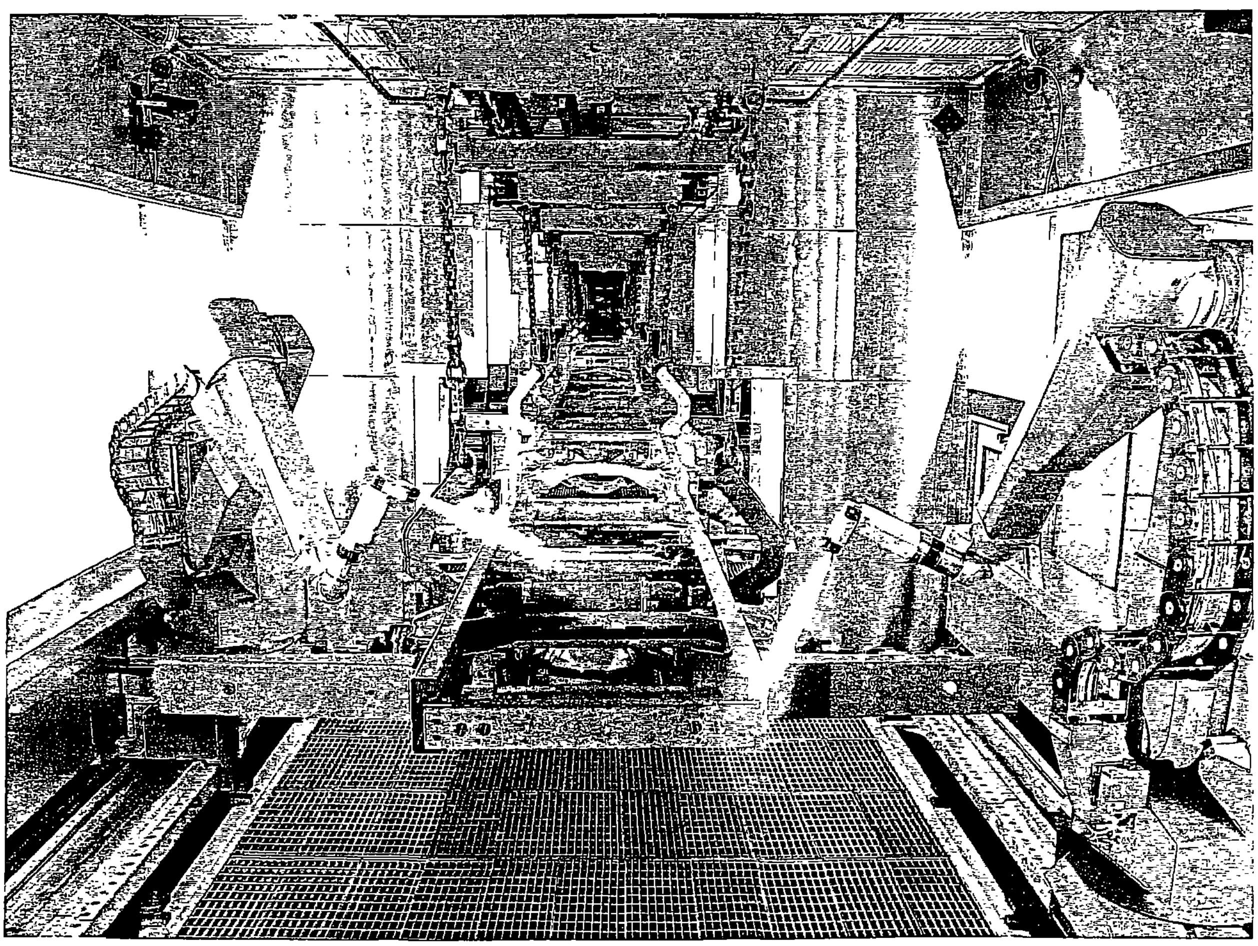


This medium-duty Kenworth KW45 serves Mexico's extensive in-city delivery requirements, offering excellent maneuverability, visibility and ergonomic design.

Leyland, the United Kingdom's leading truck manufacturer, delivered a record 17,000 vehicles to customers throughout Europe in 2005. The innovative application of industry-leading technology helped Leyland substantially increase production capacity.

Leyland produces a highly complex mix of vehicles in its state-of-the-art manufacturing plant, delivering a range of DAF and Foden trucks. In 2005, Leyland expanded production capacity considerably with the addition of a remarkable new robotic chassis paint facility — a world first in the commercial vehicle industry. Engineers employed a detailed visioneering model to optimize and speed installation of the groundbreaking project. Leyland worked with other PACCAR divisions worldwide to develop a patent-pending software program that enables the robotic spraying process to handle an enormous variety of truck configurations.

Leyland has earned much industry recognition over the years for the high quality, efficiency and safety standards achieved at its world-class 607,000-square-foot manufacturing facility. In 2005, Leyland was presented with the President's Prize by the Royal Society for the Prevention of Accidents (RoSPA) in recognition for earning RoSPA's Gold Award ten years in a row.



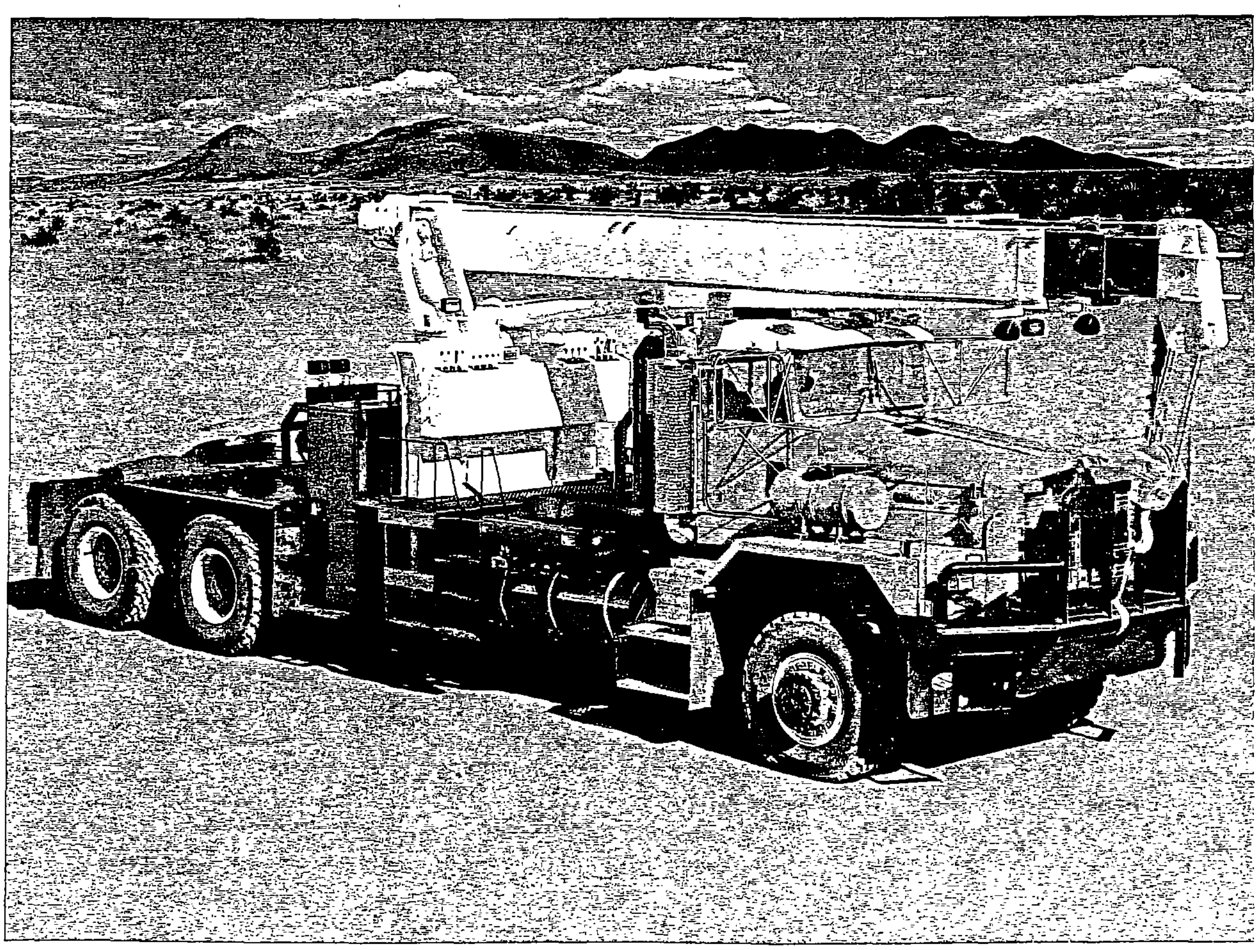
A world first in the commercial vehicle industry, Leyland added an innovative new robotic chassis paint facility in 2005 that helped boost capacity and achieve record production levels for DAF and Foden trucks.

PACCAR International, a leader in delivering Kenworth, Peterbilt and DAF trucks to customers worldwide, posted record sales and profits during 2005. A buoyant global economy increased demand for premium-quality PACCAR vehicles.

Worldwide demand for PACCAR's custom-built transportation solutions continued to grow in 2005. PACCAR International delivered its 1,000th locally assembled DAF unit to South Africa, a market recognizing the benefits of PACCAR's vehicle reliability. Latin America's economic recovery spurred growth in sales for on-highway, vocational and medium-duty trucks. Customers in Colombia purchased record numbers of Kenworth trucks in 2005.

Higher oil prices energized the oilfield servicing industry and resulted in greater truck demand. PACCAR off-highway products such as the Kenworth Super 953 and the Kenworth C500 delivered excellent performance in rugged and remote locales while serving the logging and mining markets.

PACCAR International strengthened its market presence in 2005, expanding its dealer network in China, Taiwan, and Central and South America. Customers in over 100 countries benefit from the durability and reliability of PACCAR trucks and on-time delivery of parts and service.



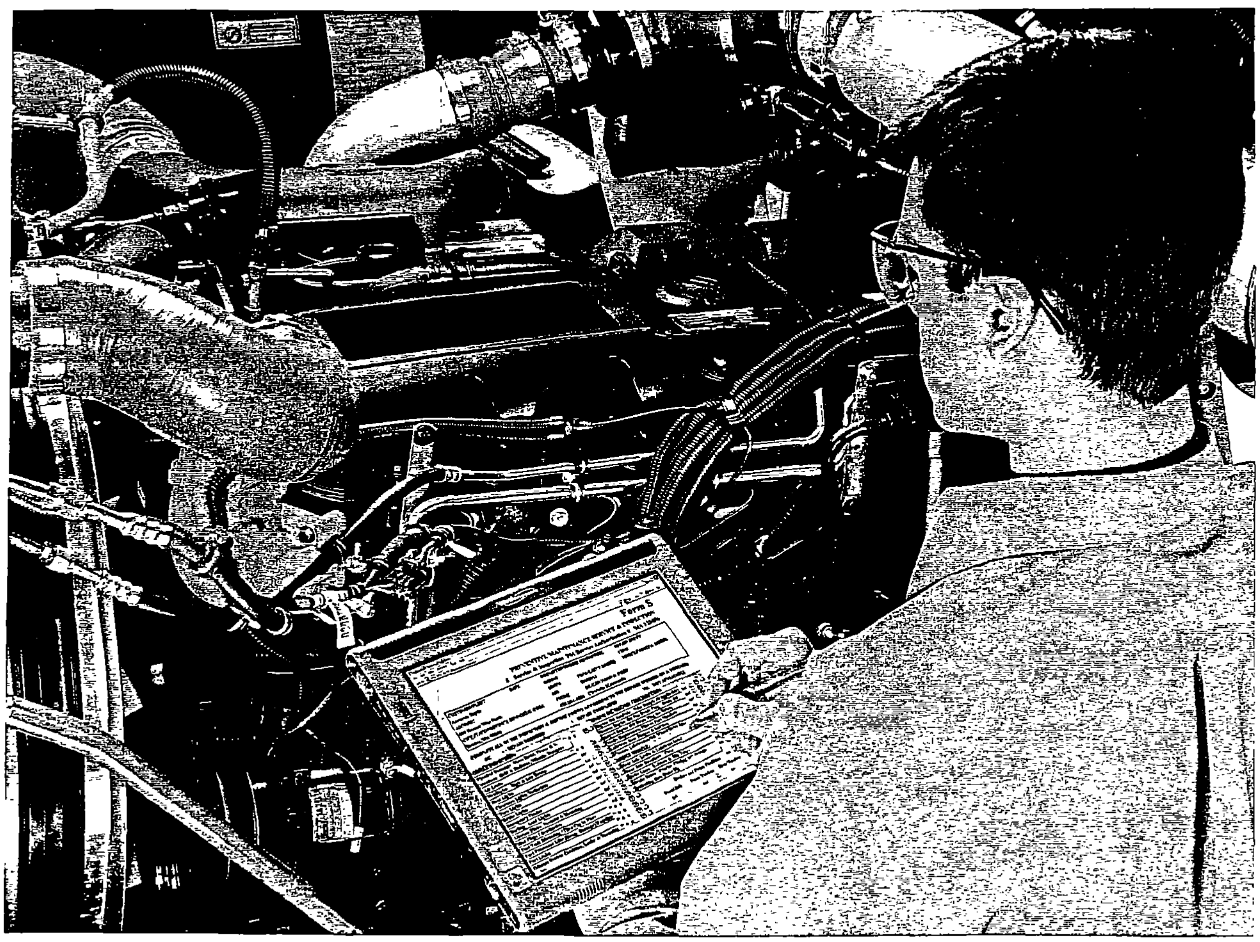
PACCAR International serves customers worldwide, merging PACCAR's manufacturing expertise with the specialized knowledge of its global dealer network to solve transportation challenges. This huge Kenworth C540, destined for Middle East oilfields, reflects decades of successful experience serving remote locations.

PACCAR Parts achieved record sales and profits for the 13th consecutive year in 2005, substantially increasing business in every market worldwide. The results included a strong demand for the comprehensive PACCAR-branded aftermarket product line.

PACCAR Parts celebrated its best year in 2005, shipping 11.2 million order lines throughout the world for all makes of trucks. Innovative efforts in marketing, sales, customer service and information technology contributed to a surge in sales. PACCAR Parts U.K. assumed distribution of Leyland parts from a third-party distributor in 2005, and a new 72,000-square-foot facility at Leyland was completed to meet increased customer demand for DAF parts in the European market.

Popular PACCAR branded All-Makes parts lines — such as INLINE, DYNACRAFT, MIRREX and ROADLEVELER, which include brakes, accessories, fenders, batteries and air and electrical components — expanded in 2005 and posted dramatic volume increases. PACCAR Parts also introduced an extension of its popular Connect program called WebConnect, a comprehensive vehicle-maintenance and parts-inventory system for small fleets.

The superlative PACCAR Customer Call Centers offer 24/7 roadside support to truck drivers throughout North America and Europe, managing 1.7 million telephone calls annually.



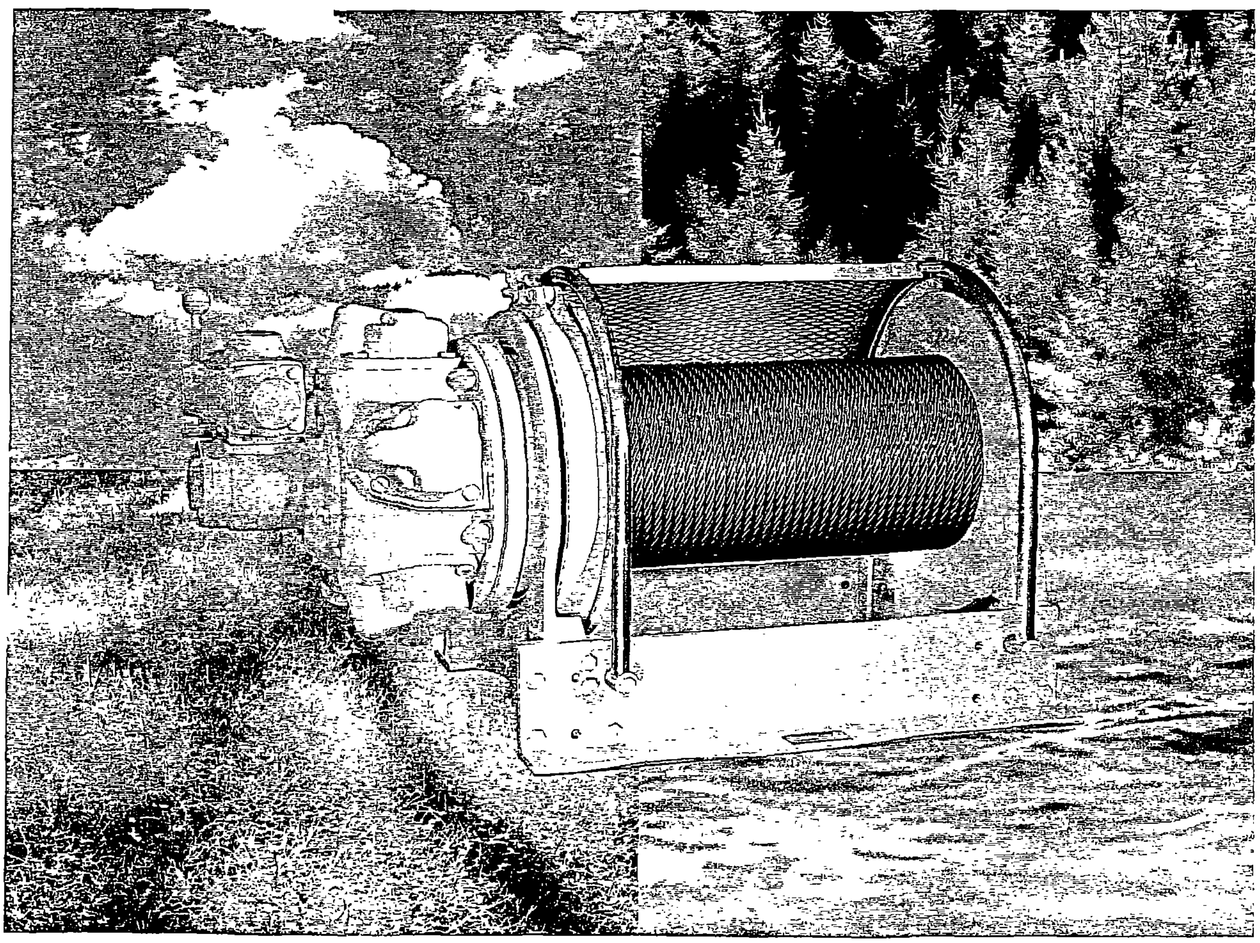
PACCAR Parts employs industry-leading technologies to heighten competitive advantage throughout its distribution system Preventive Maintenance Automation, for example, enables dealership technicians to streamline maintenance inspections, customer communication and payment processing.

PACCAR Winch Division is the premier full-line producer of industrial winches in the world. Robust global demand for products in every segment propelled PACCAR Winch to new records in sales, profits and market share in 2005.

Braden recovery winches, hoists and drives, Gearmatic planetary hoists and Carco tractor winches are renowned for their engineering excellence, dependability and precise handling characteristics in challenging environments.

The Winch Division reinforced its industry-leading reputation for innovation by introducing Electronic Winch Monitoring (EWM), a patent-pending new technology that electronically senses winch performance and automatically applies an auxiliary brake to assist in stopping the load in emergencies. Another industry first, the Electronic Maintenance Module (EMM), detects the direction of winch rotation, remaining wire rope capacity, load and speed and electronically logs critical operating history for improved maintenance.

PACCAR Winch expanded its extensive product line in 2005, introducing the BA series of air-driven winch models engineered specifically to suit oil and gas drilling and mining industries. The division also unveiled a series of compact winches featuring higher line pull, superior quality and longevity for the growing service body crane market.



PACCAR Winch launched a new line of air-driven winches specifically engineered for offshore oil and gas markets Each model features an internal multi-disc brake and an overrunning clutch for superior load control.

PACCAR Financial Services Companies (PFS), which support the sale of PACCAR trucks worldwide, achieved record income in 2005. PFS portfolios are comprised of more than 144,000 trucks and trailers, with total assets surpassing $8.3 billion.

PACCAR Financial Corp. (PFC), the preferred source of financing for Kenworth and Peterbilt trucks in North America, set new records for finance volume in 2005. PFC's innovative financial and insurance products generated increased demand in all market segments.

Six Sigma driven process and technology investments enabled PFC to reduce credit application processing time by 50 percent. An updated pre-owned equipment Web site, the introduction of tablet PCs for field sales teams and new capabilities for PFC's Web-based Online Transportation Information System (OTIS) dramatically improved loan-processing efficiency and responsiveness. PFC introduced Retail Manager, an initiative designed to streamline service to owner-operators.

PACCAR Financial Europe (PFE) achieved a record $1.85 billion in assets in 2005, and provides financial services to DAF dealers and customers in 11 Western European countries. PFE is the market-share leader in financing DAF products in Europe.

PACCAR FINANCIAL

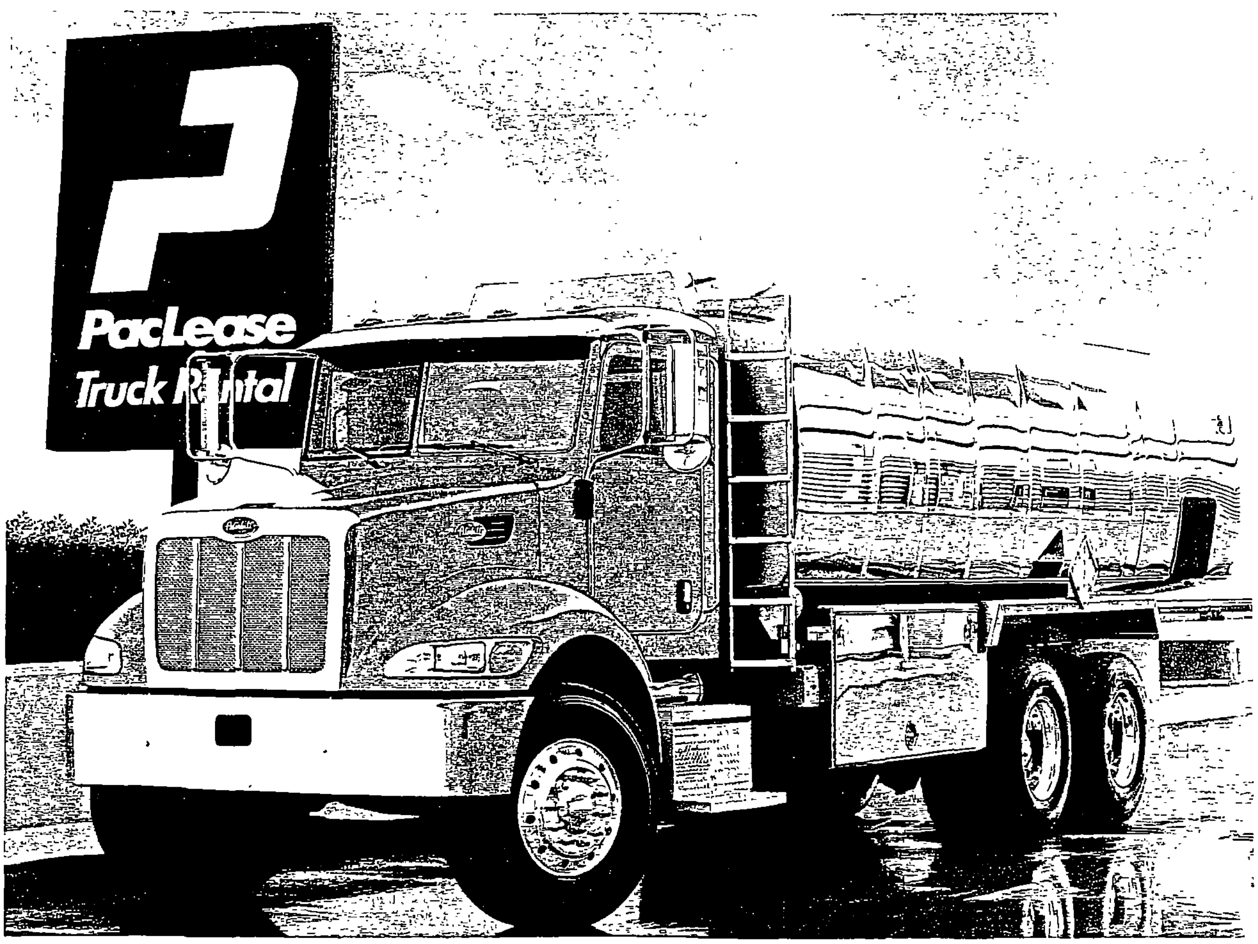
PACCAR Financial Services Companies facilitate the sale of PACCAR products throughout the world, utilizing information technology in innovative ways to streamline credit processing and communication for customers and dealers.

Celebrating its 25th anniversary, PACCAR Leasing achieved record profits for the 12th consecutive year in 2005 and delivered a record number of new Kenworth and Peterbilt trucks throughout its North American network. The PacLease fleet contains 23,500 units—including 1,900 leased vehicles serving Mexico.

PacLease, one of the largest full-service truck rental and leasing networks in North America, provides customers with complete and reliable daily transportation solutions. In 2005, PacLease inaugurated a new full-service lease program geared to the exacting requirements of vocational operators, a growing segment of the lease industry.

During 2005, more than 17 percent of all Class 6, 7 and 8 vehicles manufactured were delivered to the full-service leasing industry. Driver and technician shortages, rising fuel costs and sophisticated maintenance requirements for truck systems have created a flourishing market for outsourced transport services such as leasing.

PACCAR Leasing offers significant competitive advantages: custom-built, premium-quality PACCAR trucks with exceptional residual value, low operating expenses, an expansive network of 245 responsive franchises and company locations, and a full spectrum of value-added transportation services.



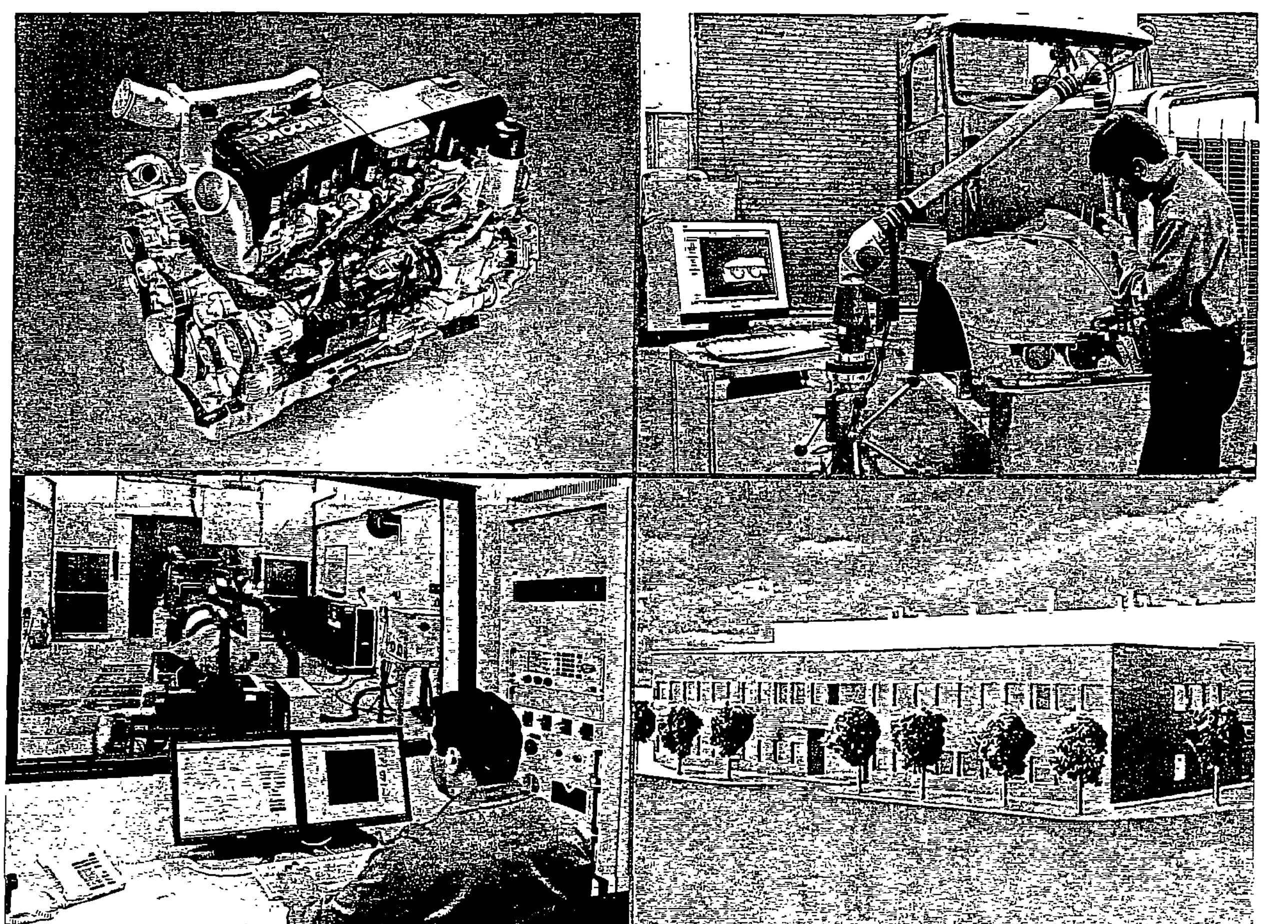
PACCAR Leasing expanded its fleet by 20 percent in 2005 and increased its share of the medium-duty market with a greater number of premium-quality Class 6-7 trucks, such as this popular Peterbilt Model 335

PACCAR TECHNICAL CENTERS

PACCAR Technical Centers in Europe and North America ensure that new product designs perform to PACCAR's rigorous quality standards. Increasing use of advanced simulation techniques and sophisticated information technology systems has leveraged worldwide engineering resources.

PACCAR Technical Centers are world-class facilities with state-of-the-art product test and validation capabilities. At the U.S. Technical Center, engineers use high-speed computing clusters to model, test and validate designs up to 10 times faster than with previous methods. The new Electronics Integration Center uses hardware-in-the-loop technology to simulate and validate next-generation electronics systems in a laboratory environment. The engine test laboratory simulates the demanding performance required in a million-mile powertrain.

In Europe, PACCAR's Technical Center was instrumental in the development, testing and field validation phases of DAF's new XF105 model and low-deck CF85 tractor and the PACCAR MX engine. DAF opened its new 8,000-square-meter semi-anechoic chamber, unique in the truck manufacturing industry, to evaluate vehicle sound compliance.

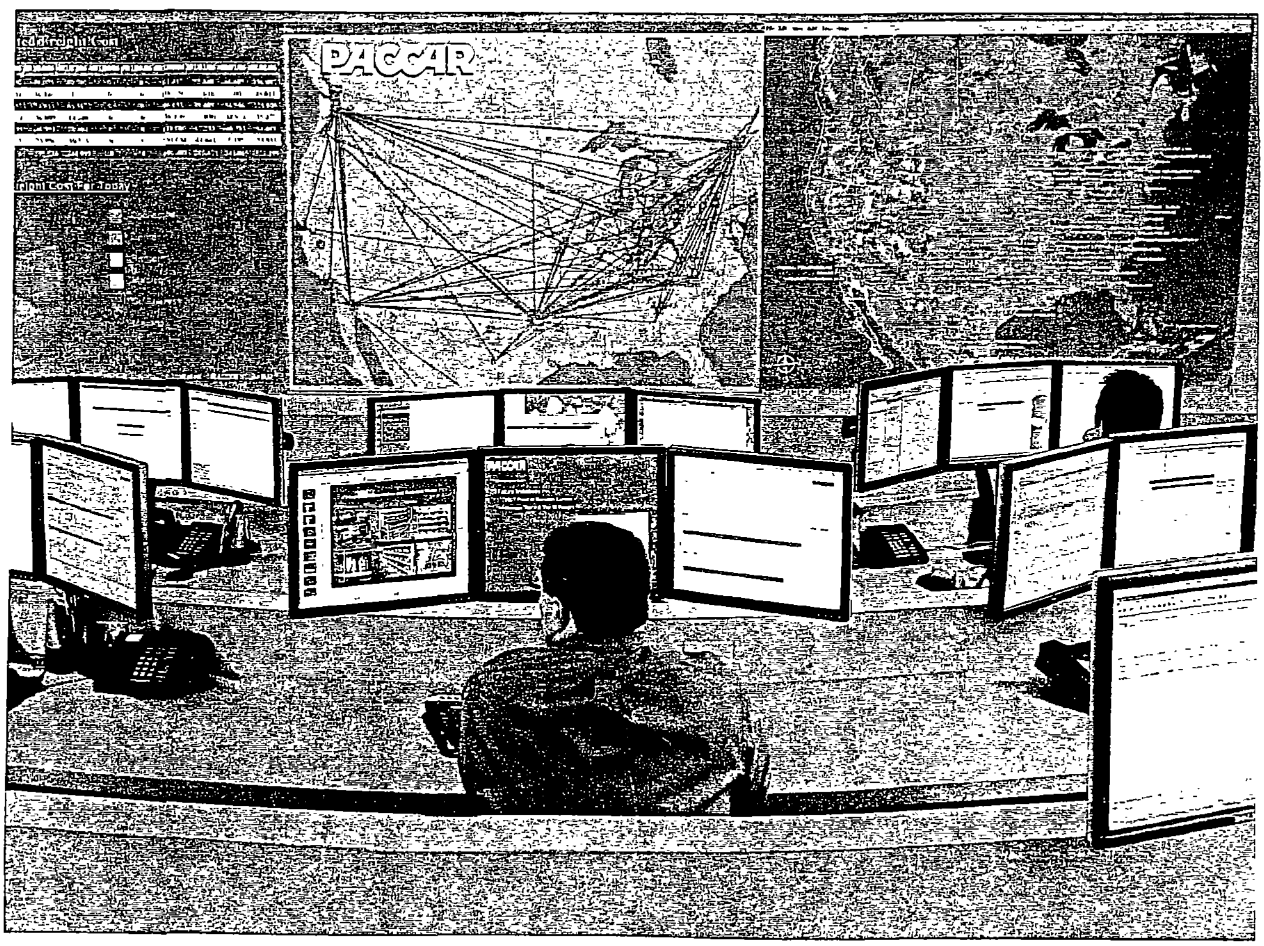


PACCAR Technical Centers, in the Netherlands and in Washington State, employ highly sophisticated engineering analysis, simulation and rapid prototyping technologies to accelerate the development of world-class components and designs

PACCAR'S Information Technology Division (ITD) is an industry leader in the innovative application of software and hardware technology. ITD provides PACCAR a competitive advantage at every stage of the product life cycle, including R&D, sales, manufacturing, financial services and aftermarket support.

PACCAR earned the top position in *InformationWeek* magazine's ranking of companies in the automotive sector during 2005 for the use of information technology. Kenworth and Peterbilt launched product enhancements that include advanced vehicle electronics and networked dashboard instrumentation developed by ITD. The Electronic Service Analyst (ESA), a new wireless tool for North American factories, dealers and call centers to enhance vehicle programming and diagnostics, also was designed by the Information Technology Division.

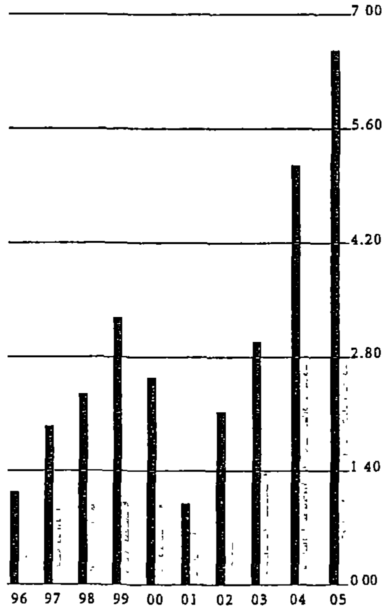
In 2005, ITD's 700 employees' expertise in software and hardware development contributed to achieving record results for many PACCAR divisions. An updated Manufacturing Execution System (MES), for example, includes enhancements that enable PACCAR's production facilities to electronically track each vehicle chassis location, monitor quality check status and interface with material and engineering personnel on design and parts queries.



Utilizing the ITD-developed PACCAR Transportation System, planners at PACCAR's new state-of-the-art Logistics Center manage the movement of inbound freight traffic to PACCAR factories and parts distribution centers throughout North America

EARNINGS & DIVIDENDS PER SHARE

dollars

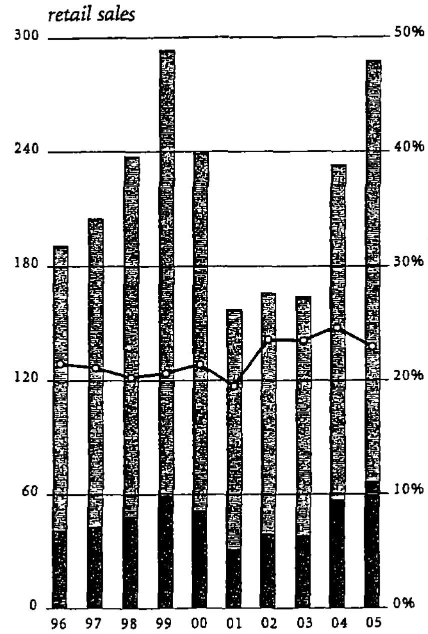


Diluted Earnings per Share

Dividends per Share

U.S. AND CANADA CLASS 8 TRUCK MARKET SHARE

retail sales



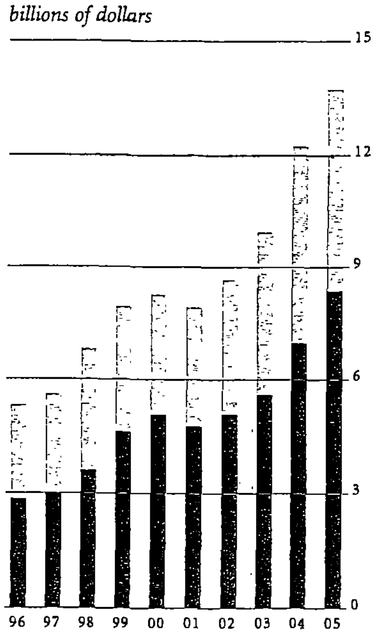
Total U S. and Canada Class 8 Units excluding PACCAR (in thousands)

PACCAR Units (in thousands)

PACCAR Market Share (percent)

TOTAL ASSETS

billions of dollars

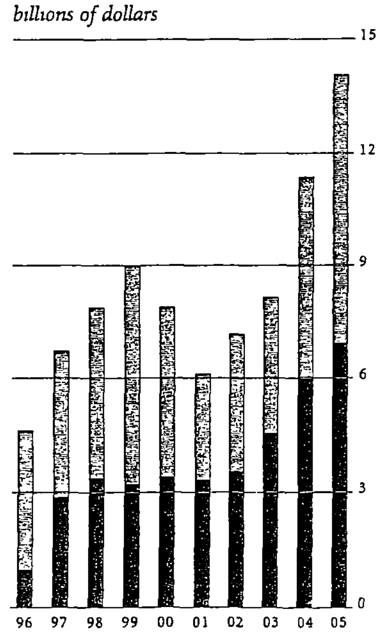


Truck and Other

Financial Services

GEOGRAPHIC REVENUE

billions of dollars



United States

Outside U.S.

(tables in millions, except truck unit and per share data)

RESULTS OF OPERATIONS:

	2005	2004	2003
Net sales and revenues:			
Truck and Other	**$13,298.4**	$10,833.7	$7,721.1
Financial Services	**759.0**	562.6	473.8
	$14,057.4	$11,396.3	$8,194.9
Income before taxes:			
Truck and Other	**$ 1,516.8**	$ 1,139.9	$ 640.6
Financial Services	**199.9**	168.4	123.6
Investment Income	**56.9**	59.9	41.3
Income taxes	**(640.4)**	(461.4)	(279.0)
Net Income	**$ 1,133.2**	$ 906.8	$ 526.5
Diluted earnings per share	**$ 6.56**	$ 5.16	$ 2.99

Overview:

PACCAR is a multinational company whose principal businesses include the design, manufacture and distribution of high-quality, light-, medium- and heavy-duty commercial trucks and related aftermarket parts and the financing and leasing of its trucks and related equipment. The Company also manufactures and markets industrial winches.

Consolidated net sales and revenue increased 23% to a record $14.06 billion from $11.40 billion in 2004 due to strong global demand for the Company's high-quality trucks, aftermarket parts and financial services. Financial Services revenues increased 35% to $759.0 million in 2005.

PACCAR achieved record net income in 2005 of $1,133.2 million ($6.56 per diluted share), which was an increase of 25% over 2004 net income of $906.8 million ($5.16 per diluted share). Excellent results were achieved in the Truck and Other businesses due to the strong revenue growth, increased margins and continued cost control. Financial Services income before taxes increased 19% to a record $199.9 million compared to $168.4 million in 2004 as a result of robust asset growth, low credit losses and excellent finance margins.

Selling, general and administrative (SG&A) expense for Truck and Other increased to $429.9 million in 2005 compared to $390.4 million in 2004. SG&A increased to support higher production levels, expanded sales initiatives and technology investments. However, as a percent of revenues, SG&A expense decreased to a record low of 3.2% in 2005 from 3.6% in 2004 as the Company benefited from Six Sigma initiatives and process improvements driven by technology investments.

Investment income of $56.9 million in 2005 compares to $59.9 million in 2004, which included a one-time gain of $14.1 million from the sale of equity securities. Excluding the gain in 2004, investment income was higher in 2005 due to higher average interest rates earned on cash and marketable debt securities.

The 2005 income tax provision includes a one-time charge of $64.0 million ($.37 per share) related to repatriation of $1.5 billion of foreign earnings. Excluding the tax charge on repatriated earnings, the effective rate was 32.5% in 2005 compared to 33.7% in 2004. The lower effective tax rate in 2005 was primarily due to lower tax rates in the Netherlands and Mexico.

The Company's return on revenues was a record 8.1% (8.5% excluding the one-time tax charge) compared to 8.0% in 2004.

Truck

PACCAR's truck segment, which includes the manufacture and distribution of trucks and related aftermarket parts, accounted for 94% of revenues in 2005 and 2004 and 93% of revenues in 2003. In North America, trucks are sold under the Kenworth and Peterbilt nameplates and, in Europe, under the DAF nameplate.

	2005	2004	2003
Truck net sales and revenues	**$13,196.1**	$10,762.3	$7,661.2
Truck income before taxes	**$ 1,520.2**	$ 1,145.0	$ 655.4

PACCAR 00025

The Company achieved record new truck deliveries in 2005, summarized as follows:

	2005	2004	2003
United States	**71,900**	59,200	39,000
Canada	**10,900**	9,100	6,600
U.S. and Canada	**82,800**	68,300	45,600
Europe	**52,200**	45,300	38,600
Mexico, Australia and other	**13,500**	10,500	8,800
Total units	**148,500**	124,100	93,000

2005 Compared to 2004:
PACCAR's worldwide truck sales and revenues increased 23% to $13.20 billion in 2005 due to continued high demand for the Company's trucks and related aftermarket parts around the world.

Truck income before taxes was $1.52 billion compared to $1.14 billion in 2004. The increase from the prior year is due to higher production rates, growing aftermarket part sales and improved truck margins. The impact of exchange rate movements was not significant to either revenues or profit in 2005.

Peterbilt and Kenworth delivered 82,800 medium and heavy trucks in the U.S. and Canada during 2005, an increase of 21% over 2004 with heavy-duty (Class 8) deliveries up 23% and medium-duty (Class 6 and 7) deliveries up 12%. The increased deliveries reflect overall market growth. The Class 8 market increased to 287,500 units in 2005 from 233,000 in 2004. The medium-duty market increased 5% to 100,700 units.

New truck deliveries in Europe increased 15% to a record 52,200 units. The 15 tonne and above truck market improved to a record 259,000 units, a 9% increase from 2004 levels. PACCAR's DAF truck brand increased its share of the 15 tonne and above market for the sixth year in a row. DAF market share in the 6 to 15 tonne market also increased. Truck and parts sales in Europe represented 31% of PACCAR's total truck segment net sales and revenues in 2005, compared to 34% in 2004.

Truck unit deliveries in Mexico, Australia and other countries outside the Company's primary markets increased 29%. Deliveries outside the primary markets to customers in Africa, Asia and South America are sold through PACCAR International, the Company's international sales division. Combined truck and parts sales in these markets accounted for 10% of total truck segment sales and 11% of truck segment profit in 2005.

PACCAR's worldwide aftermarket parts revenues were $1.68 billion, an increase of 15% compared to $1.46 billion in 2004. Parts operations in North America and Europe benefited from a growing truck population and the further integration of PACCAR technology with dealer business systems to improve responsiveness to customer needs.

Truck segment gross margin as a percentage of net sales and revenues improved to 14.5% in 2005 from 14.3% in 2004 as a result of higher operating efficiencies and strong demand for the Company's products. Higher material costs from suppliers due to increases in steel, aluminum, crude oil and other commodities have generally been reflected in new truck sales prices.

2004 Compared to 2003:

PACCAR's worldwide truck sales and revenues increased $3.10 billion to $10.76 billion in 2004 primarily due to higher demand for heavy-duty trucks in all of the Company's primary markets and a $330.3 million increase due to the weaker U.S. dollar.

Truck income before taxes was $1.14 billion compared to $655.4 million in 2003. The increase from the prior year was the result of higher production rates, aftermarket parts sales volume and truck margins, as well as a $52.9 million favorable impact of the weaker U.S. dollar.

New trucks delivered in the U.S. and Canada were 68,300, an increase of 50% from 2003. Industry retail sales of new Class 8 trucks in the U.S. and Canada totaled 233,000 units in 2004, an increase of 42% from the 2003 level of 164,000. Kenworth and Peterbilt improved their share of the U.S. and Canada Class 6 and 7 truck market in 2004, contributing to the increased deliveries.

In 2004, new trucks delivered in Europe totaled 45,300 units, an increase of 17%. The European 15 tonne and above truck market improved by 20,000 to 238,000 units. DAF Trucks increased its share of both the European heavy-duty (above 15 tonne) market and the 6 to 15 tonne market. Sales in Europe represented approximately 34% of PACCAR's total truck segment net sales and revenue in 2004, compared to 35% in 2003.

Truck unit deliveries in Mexico, Australia and other countries increased 19%, primarily due to larger markets in Mexico and Australia. Combined results in these countries were 10% of total truck segment sales and 14% of profit in 2004.

PACCAR's worldwide aftermarket parts revenues of $1.46 billion increased in 2004 compared to 2003 due to a larger truck population and improved market penetration.

In November 2004, PACCAR concluded an early termination agreement with the RAC plc regarding the distribution of Leyland aftermarket parts to DAF dealers and customers in the United Kingdom. PACCAR's 2004 truck segment results include a $33.3 million pretax charge for costs associated with the agreement.

Truck Outlook

Demand for heavy-duty trucks in the U.S. and Canada is currently forecasted to increase approximately 5% in 2006, with industry retail sales expected to be 290,000–310,000 trucks. European heavy-duty registrations for 2006 are projected to be similar to 2005 at 245,000–265,000 units. Both markets will be affected by engine emissions regulations. In Europe, effective October 1, 2006, all new truck registrations will be required to comply with Euro 4 emissions standards. In the U.S., effective January 1, 2007, all new diesel engines manufactured will be required to comply with EPA 2007 engine emissions standards. In both markets, conversion to the new engine emissions standards will increase the end user vehicle cost. Customers may adopt strategies to mitigate the cost impact by accelerating purchases of trucks before the new standards take effect. This could result in a "pull forward" of vehicle sales in Europe in the first three quarters of 2006 and in the U.S. prior to the January 1, 2007 deadline.

Financial Services

The Financial Services segment, which includes wholly owned subsidiaries in North America, Europe and Australia, derives its earnings primarily from financing or leasing PACCAR products.

	2005	2004	2003
Financial Services:			
Average earning assets	**$7,389.0**	$5,945.0	$5,139.0
Revenues	**759.0**	562.6	473.8
Income before taxes	**199.9**	168.4	123.6

2005 Compared to 2004:

PACCAR Financial Services (PFS) revenues increased 35% to $759.0 million due to higher earning assets worldwide and, to a lesser extent, higher interest rates in the U.S. New business volume was $3.73 billion, up 20% from 2004 on higher truck sales levels and strong market share. PFS provided loan and lease financing for over 27% of PACCAR new trucks delivered in 2005.

Income before taxes increased 19% to a record $199.9 million from $168.4 million in 2004. This improvement was primarily due to higher finance margins, partly offset by a higher provision for losses on receivables related to growing earning asset balances. The increase in finance margins was due to higher earning asset levels and higher yield rates on assets, offset partly by a higher cost of funds. Net portfolio charge-offs were $19.3 million compared to $12.2 million in 2004 and represented .26% and .21% of average earning assets, respectively. At December 31, 2005, the earning asset portfolio was performing well with the percentage of accounts 30+ days past due at 1.2% compared to 1.1% at the end of 2004.

2004 Compared to 2003:

Financial Services revenues increased 19% to $562.6 million in 2004 compared to the prior year due to higher asset levels in the Company's primary operating markets. New business volume was $3.12 billion, up 38%, reflecting higher truck sales and improved leasing market share.

Income before taxes increased 36% to $168.4 million in 2004 compared to $123.6 million in 2003. The improvement was primarily due to higher finance margins and lower credit losses. Credit losses for the Financial Services segment were $12.2 million in 2004, compared to $24.2 million in 2003. The lower credit losses reflect fewer truck repossessions and higher used truck prices. The increase in finance margins was due to higher earning assets and a lower cost of funds, partially offset by a lower interest yield on assets.

Financial Services Outlook

The outlook for the Financial Services segment is principally dependent on the generation of new business volume and the related spread between the asset yields and the borrowing costs on new business, as well as the level of credit losses experienced. Asset growth is likely in North America and Europe, consistent with the anticipated strong truck markets. The segment continues to be exposed to the risk that economic weakness, as well as higher interest rates and fuel and insurance costs, could exert pressure on the profit margins of truck operators and result in higher past-due accounts and repossessions.

Other Business

Included in Truck and Other is the Company's winch manufacturing business. Sales from this business represent less than 1% of net sales for 2005, 2004 and 2003.

LIQUIDITY AND CAPITAL RESOURCES:

	2005	2004	2003
Cash and cash equivalents	**$1,698.9**	$1,614.7	$1,347.0
Marketable debt securities	**591.4**	604.8	377.1
	$2,290.3	$2,219.5	$1,724.1

The Company's total cash and marketable debt securities increased $70.8 million in 2005. Cash provided by operations of $986.8 million was used primarily to pay dividends of $496.9 million, make capital additions totaling $300.4 million and repurchase PACCAR stock for $367.2 million. Cash required to originate new loans and leases was funded by repayments of existing loans and leases as well as Financial Services borrowings.

The Company has line of credit arrangements of $1.70 billion. The unused portion of these credit lines was $1.62 billion at December 31, 2005 and is primarily maintained to provide backup liquidity for commercial paper borrowings of the financial services companies. Included in these arrangements is a $1.5 billion bank facility, of which $.5 billion matures in 2006 and $1.0 billion matures in 2010. The Company's strong liquidity position and AA- investment grade credit rating continue to provide financial stability and access to capital markets at competitive interest rates.

Truck and Other

The Company provides funding for working capital, capital expenditures, research and development, dividends and other business initiatives and commitments primarily from cash provided by operations. Management expects this method of funding to continue in the future.

Long-term debt and commercial paper were $28.8 million as of December 31, 2005.

Expenditures for property, plant and equipment in 2005 totaled $299 million compared to $231 million in 2004. Major capital projects included a new engine factory at DAF to manufacture the new Euro 4/5 compliant PACCAR MX 12.9 liter engine for the European market and a significantly expanded Kenworth truck factory in Mexico. In addition, the Company invested in robotics and other quality-enhancing innovations in all of its truck factories. Over the last five years, the Company's worldwide capital spending totaled $800 million.

Spending for capital investments in 2006, including new product development, is expected to increase from 2005 levels. PACCAR is investing in state-of-the-art technology to improve product design and quality, increase capacity, achieve efficiencies in business processes and enhance the distribution network, as well as develop new manufacturing tooling to support product development plans.

As previously announced, during the second quarter of 2005, PACCAR's Board of Directors authorized the Company to repatriate $1.5 billion of foreign earnings under the provisions of The American Jobs Creation Act. This repatriation was completed by the end of 2005. In accordance with FASB Staff Position No. 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004*, a provision of $64.0 million for the repatriation of foreign earnings was recorded as income tax expense in the second quarter of 2005. U.S. income taxes are not provided on any remaining undistributed earnings of the Company's foreign subsidiaries because of the intent to reinvest these earnings indefinitely.

Financial Services

The Company funds its financial services activities primarily from collections on existing finance receivables and borrowings in the capital markets. An additional source of funds is loans from other PACCAR companies in the truck segment.

The primary sources of borrowings in the capital market are commercial paper and medium-term notes issued in the public markets and, to a lesser extent, bank loans. The majority of the medium-term notes are issued by PACCAR's largest financial services subsidiary, PACCAR Financial Corp. (PFC). PFC periodically files a shelf registration under the Securities Act of 1933. At December 31, 2005, $1.3 billion of such securities remained available for issuance.

In September 2005, PACCAR's European finance subsidiary, PACCAR Financial Europe, registered a €1 billion euro medium-term note program with the London Stock Exchange. On December 31, 2005, €341 million remained available for issuance. This program is renewable annually through the filing of a new prospectus.

To reduce exposure to fluctuations in interest rates, the Financial Services companies pursue a policy of structuring borrowings with interest-rate characteristics similar to the assets being funded. As part of this policy, the companies use interest-rate contracts. The permitted types of interest-rate contracts and transaction limits have been established by the Company's senior management, who receive periodic reports on the contracts outstanding.

PACCAR believes its Financial Services companies will be able to continue funding receivables and servicing debt through internally generated funds, lines of credit and access to public and private debt markets.

Commitments

The following summarizes the Company's contractual cash commitments at December 31, 2005:

	Maturity		
	Within One Year	More than One Year	Total
Borrowings	$5,319.4	$ 935.5	$6,254.9
Operating leases	32.1	49.8	81.9
Other obligations	15.2	68.6	83.8
Total	$5,366.7	$1,053.9	$6,420.6

At the end of 2005, the Company had $6.42 billion of cash commitments, including $5.37 billion maturing within one year. Of the cash commitments, $6.23 billion were related to the Financial Services segment. As described in Note K of the consolidated financial statements, borrowings consist primarily of term debt and commercial paper of the Financial Services segment. The Company expects to fund its maturing Financial Services debt obligations principally from funds provided by collections from customers on loans and lease contracts, as well as from the proceeds of commercial paper and medium-term note borrowings. Other obligations include deferred cash compensation and the Company's contractual commitment to acquire future production inventory.

The Company's other commitments include the following at December 31, 2005:

	Commitment Expiration		
	Within One Year	More than One Year	Total
Letters of credit	$ 16.3	$ 15.0	$ 31.3
Loan and lease commitments	291.4		291.4
Equipment acquisition commitments	14.9	38.2	53.1
Residual value guarantees	71.4	175.6	247.0
Total	$394.0	$228.8	$622.8

Loan and lease commitments are to fund new retail loan and lease contracts. Equipment acquisition commitments require the Company, under specified circumstances, to purchase equipment. Residual value guarantees represent the Company's commitment to acquire trucks at a guaranteed value if the customer decides to return the truck at a specified date in the future.

IMPACT OF ENVIRONMENTAL MATTERS:

The Company, its competitors and industry in general are subject to various domestic and foreign requirements relating to the environment. The Company believes its policies, practices and procedures are designed to prevent unreasonable risk of environmental damage and that its handling, use and disposal of hazardous or toxic substances have been in accordance with environmental laws and regulations enacted at the time such use and disposal occurred. Expenditures related to environmental activities were $1.2 million in 2005, $2.4 million in 2004 and $1.2 million in 2003.

The Company is involved in various stages of investigations and cleanup actions in different countries related to environmental matters. In certain of these matters, the Company has been designated as a "potentially responsible party" by domestic and foreign environmental agencies. The Company has provided for the estimated costs to investigate and complete cleanup actions where it is probable that the Company will incur such costs in the future.

The Company's estimated range of reasonably possible costs to complete cleanup actions, where it is probable that the Company will incur such costs and where such amounts can be reasonably estimated, is between $19.2 million and $44.2 million. The Company has established a reserve to provide for estimated future environmental cleanup costs.

While the timing and amount of the ultimate costs associated with environmental cleanup matters cannot be determined, management does not expect that these matters will have a material adverse effect on the Company's consolidated cash flow, liquidity or financial condition.

CRITICAL ACCOUNTING POLICIES:

In the preparation of the Company's financial statements, in accordance with U.S. generally accepted accounting principles, management uses estimates and makes judgments and assumptions that affect asset and liability values and the amounts reported as income and expense during the periods presented. The following are accounting policies which, in the opinion of management, are particularly sensitive and which, if actual results are different, may have a material impact on the financial statements.

Operating Leases

The accounting for trucks sold pursuant to agreements accounted for as operating leases is discussed in Notes A and G of the consolidated financial statements. In determining its estimate of the residual value of such vehicles, the Company considers the length of the lease term, the truck model and anticipated market demand and the expected usage of the truck. If the sales price of the trucks at the end of the term of the agreement differs significantly from the Company's estimate, a gain or loss will result. The Company believes its residual-setting policies are appropriate; however, future market conditions, changes in government regulations and other factors outside the Company's control can impact the ultimate sales price of trucks returned under these contracts. Residual values are reviewed regularly and adjusted downward if market conditions warrant.

Allowance for Credit Losses

The Company determines the allowance for credit losses on financial services receivables based on a combination of historical information and current market conditions. This determination is dependent on estimates, including assumptions regarding the likelihood of collecting current and past-due accounts, repossession rates and the recovery rate on the underlying collateral based on used truck values and other pledged collateral or recourse. The Company believes its reserve-setting policies adequately take into account the known risks inherent in the financial services portfolio. If there are significant variations in the actual results from those estimates, the provision for credit losses and operating earnings may be adversely impacted.

Product Warranty

The expenses related to product warranty are estimated and recorded at the time products are sold based on historical data regarding the source, frequency, and cost of warranty claims. Management believes that the warranty reserve is appropriate and takes actions to minimize warranty costs through quality-improvement programs; however, actual claims incurred could differ from the original estimates, requiring adjustments to the reserve.

Pension and Other Postretirement Benefits

The Company's accounting for employee pension and other postretirement benefit costs and obligations is governed by the pronouncements of the Financial Accounting Standards Board. Under these rules, management determines appropriate assumptions about the future, which are used by actuaries to estimate net costs and liabilities. These assumptions include discount rates, health care cost trends, inflation rates, long-term rates of return on plan assets, retirement rates, mortality rates and other factors. Management bases these assumptions on historical results, the current environment and reasonable expectations of future events. The discount rate for each plan is based on market interest rates of high-quality corporate bonds with a maturity profile that matches the timing of the projected benefit payments of the plans. The long-term rate of return on plan assets is based on projected returns for each asset class and the projected relative weighting of those asset classes in the plans. Actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect expense in such future periods. Changes in the discount rate also affect the valuation of the plan benefits obligation. While management believes that the assumptions used are appropriate, significant differences in actual experience or significant changes in assumptions would affect pension and other postretirement benefit costs and obligations. See Note L of the consolidated financial statements for more information regarding costs and assumptions for employee benefit plans.

FORWARD-LOOKING STATEMENTS:

Certain information presented in this report contains forward-looking statements made pursuant to the Private Securities Litigation Reform Act of 1995, which are subject to risks and uncertainties that may affect actual results. Risks and uncertainties include, but are not limited to: a significant decline in industry sales; competitive pressures; reduced market share; reduced availability of or higher prices for fuel; increased safety, emissions, or other regulations resulting in higher costs and/or sales restrictions; currency or commodity price fluctuations; lower used truck prices; insufficient or under-utilization of manufacturing capacity; supplier interruptions; insufficient supplier capacity or access to raw materials; labor disruptions; shortages of commercial truck drivers; increased warranty costs or litigation; or legislative and governmental regulations.

CONSOLIDATED STATEMENTS OF INCOME

Year Ended December 31	2005	2004	2003
		(millions except per share data)	
TRUCK AND OTHER:			
Net sales and revenues	**$13,298.4**	$10,833.7	$ 7,721.1
Cost of sales and revenues	**11,340.5**	9,268.6	6,732.0
Selling, general and administrative	**429.9**	390.4	345.0
Interest and other expense, net	**11.2**	34.8	3.5
	11,781.6	9,693.8	7,080.5
Truck and Other Income Before Income Taxes	**1,516.8**	1,139.9	640.6
FINANCIAL SERVICES:			
Revenues	**759.0**	562.6	473.8
Interest and other	**433.8**	296.1	248.7
Selling, general and administrative	**84.9**	80.0	72.9
Provision for losses on receivables	**40.4**	18.1	28.6
	559.1	394.2	350.2
Financial Services Income Before Income Taxes	**199.9**	168.4	123.6
Investment income	**56.9**	59.9	41.3
Total Income Before Income Taxes	**1,773.6**	1,368.2	805.5
Income taxes	**640.4**	461.4	279.0
Net Income	**$ 1,133.2**	$ 906.8	$ 526.5
Net Income Per Share			
Basic	**$ 6.60**	$ 5.19	$ 3.01
Diluted	**$ 6.56**	$ 5.16	$ 2.99
Weighted average number of common shares outstanding			
Basic	**171.7**	174.6	174.8
Diluted	**172.8**	175.7	176.1

See notes to consolidated financial statements.

ASSETS

December 31	2005	2004
	(millions of dollars)	
TRUCK AND OTHER:		
Current Assets		
Cash and cash equivalents	**$ 1,624.4**	$ 1,579.3
Trade and other receivables, net	**582.2**	538.7
Marketable debt securities	**591.4**	604.8
Inventories	**495.5**	495.6
Deferred taxes and other current assets	**214.9**	113.3
Total Truck and Other Current Assets	**3,508.4**	3,331.7
Equipment on operating leases, net	**361.0**	472.1
Property, plant and equipment, net	**1,143.0**	1,037.8
Other noncurrent assets	**347.1**	406.3
Total Truck and Other Assets	**5,359.5**	5,247.9
FINANCIAL SERVICES:		
Cash and cash equivalents	**74.5**	35.4
Finance and other receivables, net	**7,262.5**	6,106.1
Equipment on operating leases, net	**845.9**	716.4
Other assets	**173.0**	122.2
Total Financial Services Assets	**8,355.9**	6,980.1
	$13,715.4	$12,228.0

LIABILITIES AND STOCKHOLDERS' EQUITY

December 31	2005	2004
	(millions of dollars)	
TRUCK AND OTHER:		
Current Liabilities		
Accounts payable and accrued expenses	$ 1,834.9	$ 1,794.4
Current portion of long-term debt and commercial paper	8.6	8.4
Dividend payable	338.7	347.8
Total Truck and Other Current Liabilities	2,182.2	2,150.6
Long-term debt and commercial paper	20.2	27.8
Residual value guarantees and deferred revenues	410.4	526.2
Deferred taxes and other liabilities	344.0	372.9
Total Truck and Other Liabilities	2,956.8	3,077.5
FINANCIAL SERVICES:		
Accounts payable, accrued expenses and other	168.9	148.8
Commercial paper and bank loans	3,568.6	2,502.0
Term debt	2,657.5	2,286.6
Deferred taxes and other liabilities	462.5	450.7
Total Financial Services Liabilities	6,857.5	5,388.1
STOCKHOLDERS' EQUITY		
Preferred stock, no par value – authorized 1.0 million shares, none issued		
Common stock, $1 par value – authorized 400.0 million shares; issued 169.4 million and 173.9 million shares	169.4	173.9
Additional paid-in capital	140.6	450.5
Treasury stock – at cost – .5 million shares	(35.1)	
Retained earnings	3,471.5	2,826.9
Accumulated other comprehensive income	154.7	311.1
Total Stockholders' Equity	3,901.1	3,762.4
	$13,715.4	$12,228.0

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31	2005	2004	2003
		(millions of dollars)	
OPERATING ACTIVITIES:			
Net income	**$ 1,133.2**	$ 906.8	$ 526.5
Items included in net income not affecting cash:			
Depreciation and amortization:			
Property, plant and equipment	**133.3**	122.0	116.1
Equipment on operating leases and other	**236.8**	193.0	151.4
Provision for losses on financial services receivables	**40.4**	18.1	28.6
Other, net	**(19.8)**	19.4	21.7
Change in operating assets and liabilities:			
(Increase) decrease in assets other than cash and equivalents:			
Receivables:			
Trade and other	**(80.1)**	(53.0)	(32.8)
Wholesale receivables on new trucks	**(398.9)**	(298.4)	(29.7)
Sales-type finance leases and dealer direct loans on new trucks	**(194.3)**	(164.0)	(10.7)
Inventories	**(30.1)**	(142.1)	23.6
Other, net	**(37.5)**	(30.2)	(57.3)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	**147.1**	409.7	57.5
Residual value guarantees and deferred revenues	**45.5**	(69.5)	(55.3)
Other, net	**11.2**	(20.8)	38.7
Net Cash Provided by Operating Activities	**986.8**	891.0	778.3
INVESTING ACTIVITIES:			
Retail loans and direct financing leases originated	**(2,946.4)**	(2,333.1)	(1,829.4)
Collections on retail loans and direct financing leases	**2,202.5**	1,816.0	1,822.4
Net (increase) decrease in wholesale receivables on used equipment	**(15.5)**	7.1	1.9
Marketable securities purchases	**(1,172.4)**	(876.3)	(945.6)
Marketable securities sales and maturities	**1,135.1**	710.5	1,097.9
Acquisition of property, plant and equipment	**(300.4)**	(231.9)	(111.2)
Acquisition of equipment for operating leases	**(548.1)**	(401.6)	(258.1)
Proceeds from asset disposals	**96.1**	103.2	30.9
Other, net	**46.5**		(7.7)
Net Cash Used in Investing Activities	**(1,502.6)**	(1,206.1)	(198.9)
FINANCING ACTIVITIES:			
Cash dividends paid	**(496.9)**	(270.9)	(171.9)
Purchase of treasury stock	**(367.2)**	(107.7)	
Stock option transactions	**11.9**	15.7	23.8
Net increase in commercial paper and bank loans	**1,148.4**	148.2	20.2
Proceeds from long-term debt	**1,016.9**	1,588.6	659.2
Payments on long-term debt	**(592.1)**	(857.6)	(662.0)
Net Cash Provided by (Used in) Financing Activities	**721.0**	516.3	(130.7)
Effect of exchange rate changes on cash	**(121.0)**	66.5	125.3
Net Increase in Cash and Cash Equivalents	**84.2**	267.7	574.0
Cash and cash equivalents at beginning of year	**1,614.7**	1,347.0	773.0
Cash and cash equivalents at end of year	**$ 1,698.9**	$ 1,614.7	$ 1,347.0

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

December 31	2005	2004	2003
	(millions of dollars except per share data)		
COMMON STOCK, $1 PAR VALUE:			
Balance at beginning of year	**$ 173.9**	$ 175.1	$ 115.9
Treasury stock retirement	**(5.0)**	(2.0)	
50% stock dividend			58.4
Stock options exercised and other stock compensation	**.5**	.8	.8
Balance at end of year	**169.4**	173.9	175.1
ADDITIONAL PAID-IN CAPITAL:			
Balance at beginning of year	**450.5**	524.2	545.8
Treasury stock retirement	**(338.4)**	(105.7)	
50% stock dividend			(58.4)
Stock options exercised and tax benefit	**27.0**	25.6	32.9
Other stock compensation	**1.5**	6.4	3.9
Balance at end of year	**140.6**	450.5	524.2
TREASURY STOCK, AT COST:			
Balance at beginning of year			
Purchases	**(378.5)**	(107.7)	
Retirements	**343.4**	107.7	
Balance at end of year	**(35.1)**		
RETAINED EARNINGS:			
Balance at beginning of year	**2,826.9**	2,399.2	2,113.3
Net income	**1,133.2**	906.8	526.5
Cash dividends declared on common stock, per share: 2005-$2.87; 2004-$2.75; 2003-$1.37	**(488.6)**	(479.1)	(240.6)
Balance at end of year	**3,471.5**	2,826.9	2,399.2
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):			
Balance at beginning of year	**311.1**	147.9	(174.3)
Other comprehensive (loss) income	**(156.4)**	163.2	322.2
Balance at end of year	**154.7**	311.1	147.9
Total Stockholders' Equity	**$ 3,901.1**	$ 3,762.4	$ 3,246.4

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year Ended December 31	2005	2004	2003
		(millions of dollars)	
Net income	**$1,133.2**	$ 906.8	$526.5
Other comprehensive (loss) income:			
Unrealized gains (losses) on investments			
Net holding (loss) gain	**(1.6)**	(1.2)	9.1
Tax effect	**.6**	.4	(3.5)
Reclassification adjustment	**(.5)**	(13.6)	(5.7)
Tax benefit	**.2**	5.2	2.2
	(1.3)	(9.2)	2.1
Minimum pension liability adjustment	**(20.2)**	(8.0)	25.8
Tax effect	**7.9**	2.7	(8.7)
	(12.3)	(5.3)	17.1
Unrealized gains (losses) on derivative contracts			
Gains (losses) arising during the period	**28.5**	(11.9)	(12.4)
Tax effect	**(10.5)**	3.8	5.6
Reclassification adjustment	**9.6**	31.4	50.6
Tax effect	**(2.8)**	(12.3)	(19.2)
	24.8	11.0	24.6
Foreign currency translation (losses) gains	**(167.6)**	166.7	278.4
Net other comprehensive (loss) income	**(156.4)**	163.2	322.2
Comprehensive Income	**$ 976.8**	$1,070.0	$848.7

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005, 2004 and 2003 (currencies in millions)

A. SIGNIFICANT ACCOUNTING POLICIES

Description of Operations: PACCAR Inc (the Company or PACCAR) is a multinational company operating in two segments: (1) the manufacture and distribution of light-, medium- and heavy-duty commercial trucks and related aftermarket parts and (2) finance and leasing products and services provided to customers and dealers. PACCAR's sales and revenues are derived primarily from North America and Europe. The Company also operates in Australia and sells trucks and parts outside its primary markets to customers in Asia, Africa and South America.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly owned domestic and foreign subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents: Cash equivalents consist of short-term liquid investments with a maturity at date of purchase of three months or less.

Long-lived Assets, Goodwill and Other Intangible Assets: The Company evaluates the carrying value of long-lived assets (including property and equipment, goodwill and other intangible assets) when events and circumstances warrant such a review. Goodwill is also reviewed for impairment on an annual basis. There were no impairment charges during the three years ended December 31, 2005.

Revenue Recognition: Substantially all sales and revenues of trucks and related aftermarket parts are recorded by the Company when products are shipped to dealers or customers, except for certain truck shipments that are subject to a residual value guarantee to the customer. Revenues related to these shipments are recognized on a straight-line basis over the guarantee period (see Note G). At the time certain truck and parts sales to a dealer are recognized, the Company records an estimate of the future sales incentive costs related to such sales. The estimate is based on historical data and announced incentive programs.

December 31, 2005, 2004 and 2003 (currencies in millions except per share amounts)

Interest income from finance and other receivables is recognized using the interest method. Certain loan origination costs are deferred and amortized to interest income. For operating leases, rental revenue is recognized on a straight-line basis over the lease term. Recognition of interest income and rental revenue is suspended when management determines that collection is not probable (generally after 90 days past the contractual due date). Recognition is resumed if the receivable becomes contractually current and the collection of amounts is again considered probable.

Foreign Currency Translation: For most of PACCAR's foreign subsidiaries, the local currency is the functional currency. All assets and liabilities are translated at year-end exchange rates and all income statement amounts are translated at the weighted average rates for the period. Adjustments resulting from this translation are recorded in accumulated other comprehensive income (loss), a component of stockholders' equity.

During 2005 the Company entered into forward currency contracts to hedge its net investment in foreign subsidiaries. The gain, net of tax effects, of $45.3 on the hedges was recorded as an adjustment to the foreign currency translation component of other comprehensive income.

PACCAR uses the U.S. dollar as the functional currency for its Mexican subsidiaries. Accordingly, inventories, cost of sales, property, plant and equipment, and depreciation were translated at historical rates. Resulting gains and losses are included in net income.

Research and Development: Research and development costs are expensed as incurred and included as a component of cost of sales in the accompanying consolidated statements of income. Amounts charged against income were $117.8 in 2005, $103.2 in 2004 and $81.1 in 2003.

Earnings per Share: Diluted earnings per share are based on the weighted average number of basic shares outstanding during the year, adjusted for the dilutive effect of stock options under the treasury stock method.

Stock-Based Compensation: Effective January 1, 2003, PACCAR began to recognize compensation expense on all new employee stock option awards over the option vesting period, generally three years.

In December 2004, the Financial Accounting Standards Board issued FAS No. 123(R), *Share-Based Payment*, which requires the expensing of all share-based payment transactions, including stock option awards. FAS No. 123(R) also requires that certain tax benefits from stock options be classified as financing rather than operating cash flows. PACCAR will apply FAS No. 123(R) on a modified prospective basis, effective January 1, 2006. The Company does not expect the adoption of FAS No. 123(R) to have a significant effect on its consolidated financial statements.

Stock-based employee compensation expense (net of related tax effects) included in net income amounted to $4.4 in 2005. The following table illustrates the effect on net income and earnings per share as if the expensing of stock options had been applied to all outstanding and unvested shares in 2004 and 2003:

	2004	2003
Net income, as reported	$906.8	$526.5
Add: Stock-based compensation included in net income, net of related tax effects	2.8	1.7
Deduct: Fair value of stock compensation, net of tax	(4.0)	(4.7)
Pro forma net income	$905.6	$523.5
Earnings per share:		
Basic–as reported	$ 5.19	$ 3.01
Basic–pro forma	5.19	2.99
Diluted–as reported	5.16	2.99
Diluted–pro forma	5.15	2.97

The estimated fair value of stock options granted during 2005, 2004 and 2003 was $21.25, $18.87 and $9.82 per share. These amounts were determined using the Black-Scholes-Merton option-pricing model, which values options based on the stock price at the grant date, and the following assumptions:

	2005	2004	2003
Risk-free interest rate	**3.73%**	3.11%	3.21%
Expected volatility of common stock	**39%**	45%	48%
Dividend yield	**3.2%**	3.0%	4.4%
Expected life of options	**5 years**	5 years	5 years

See Note Q for a description of PACCAR's stock compensation plans.

December 31, 2005, 2004 and 2003 (currencies in millions)

New Accounting Pronouncements: In March 2005, the FASB issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47). FIN 47 is an interpretation of FAS No. 143, Asset Retirement Obligations, and relates to the timing of liability recognition for legal obligations associated with the retirement of a tangible long-lived asset in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The adoption of FIN 47, effective December 31, 2005, did not have an effect on the Company's consolidated results of operations or financial position.

Reclassifications: Certain prior-year amounts have been reclassified to conform to the 2005 presentation.

B. INVESTMENTS IN MARKETABLE SECURITIES

The Company's investments in marketable securities are classified as available-for-sale. These investments are stated at fair value with any unrealized holding gains or losses, net of tax, included as a component of accumulated other comprehensive income until realized. Gross realized gains on marketable debt securities were $3.5 in 2005, not significant in 2004 and $5.1 in 2003. Gross realized losses and gross unrealized gains and losses were not significant for any of the three years ended December 31, 2005.

The cost of debt securities available-for-sale is adjusted for amortization of premiums and accretion of discounts to maturity. Amortization of premiums, accretion of discounts, interest and dividend income and realized gains and losses are included in investment income. The cost of securities sold is based on the specific identification method.

Marketable debt securities at December 31, 2005, were as follows:

	AMORTIZED COST	FAIR VALUE
U.S. tax-exempt securities	**$553.6**	**$552.7**
Non U.S. government securities	**39.3**	**38.7**
	$592.9	**$591.4**

Marketable debt securities at December 31, 2004, were as follows:

	AMORTIZED COST	FAIR VALUE
U.S. tax-exempt securities	$194.8	$195.4
Corporate securities	187.3	187.4
Non U.S. government securities	203.0	202.9
Other debt securities	19.1	19.1
	$604.2	$604.8

The contractual maturities of debt securities at December 31, 2005, were as follows:

Maturities:	AMORTIZED COST	FAIR VALUE
Within one year	**$ 78.6**	**$ 78.5**
One to five years	**196.7**	**195.3**
Five to ten years	**14.7**	**14.7**
10 or more years	**302.9**	**302.9**
	$592.9	**$591.4**

Marketable debt securities include $342.3 of variable rate demand obligations (VRDOs). VRDOs are debt instruments with long-term scheduled maturities which have interest rates that periodically reset through an auction process.

The Company had no investments in marketable equity securities at either December 31, 2005 or 2004. Gross realized gains on marketable equity securities were $14.1 and $.7 for the years ended December 31, 2004 and 2003.

C. INVENTORIES

Inventories include the following:

	2005	2004
Finished products	**$299.3**	$270.6
Work in process and raw materials	**330.1**	353.1
	629.4	623.7
Less LIFO reserve	**(133.9)**	(128.1)
	$495.5	$495.6

Inventories are stated at the lower of cost or market. Cost of inventories in the United States is determined principally by the last-in, first-out (LIFO) method. Cost of all other inventories is determined principally by the first-in, first-out (FIFO) method. Inventories valued using the LIFO method comprised 49% and 50% of consolidated inventories before deducting the LIFO reserve at December 31, 2005 and 2004.

December 31, 2005, 2004 and 2003 (currencies in millions)

D. FINANCE AND OTHER RECEIVABLES

Finance and other receivables are as follows:

	2005	2004
Loans	**$3,745.9**	$3,306.1
Retail direct financing leases	**1,881.8**	1,635.7
Sales-type finance leases	**701.2**	497.5
Dealer wholesale financing	**1,402.8**	1,061.0
Interest and other receivables	**86.6**	73.0
Unearned interest:		
Loans	**(103.6)**	(100.6)
Finance leases	**(307.0)**	(239.2)
	7,407.7	6,233.5
Less allowance for losses	**(145.2)**	(127.4)
	$7,262.5	$6,106.1

The majority of the Company's customers are located in the United States, which represented 58% of total receivables at December 31, 2005, and 56% at December 31, 2004. Terms for substantially all finance and other receivables range up to 60 months. Repayment experience indicates that some receivables will be paid prior to contract maturity, while some others will be extended or renewed.

Included in Loans are dealer direct loans on the sale of new trucks of $155.8 and $124.2 as of December 31, 2005, and December 31, 2004.

The cash flow effects of sales-type leases, dealer direct loans and wholesale financing of new trucks are shown as operating cash flows in the consolidated statement of cash flows since they finance the sale of company inventory.

Annual payments due on loans beginning January 1, 2006, are $1,372.8, $981.9, $728.7, $456.3, $184.1 and $22.1 thereafter.

Annual minimum lease payments due on finance leases beginning January 1, 2006, are $718.2, $595.4, $474.9, $362.9, $193.1 and $89.3 thereafter. Estimated residual values included with finance leases amounted to $134.4 in 2005 and $120.1 in 2004.

E. ALLOWANCE FOR LOSSES

The provision for losses on finance, trade and other receivables is charged to income in an amount sufficient to maintain the allowance for losses at a level considered adequate to cover estimated credit losses. Receivables are charged to this allowance when, in the judgment of management, they are deemed uncollectible (generally upon repossession of the collateral).

The allowance for losses on Truck and Other and Financial Services receivables is summarized as follows:

	TRUCK AND OTHER	FINANCIAL SERVICES
Balance, December 31, 2002	$ 25.9	$ 109.1
Provision for losses	(8.6)	28.6
Net losses	(4.8)	(24.2)
Currency translation	2.4	5.7
Balance, December 31, 2003	14.9	119.2
Provision for losses	(2.2)	18.1
Net losses	(1.0)	(12.2)
Currency translation	1.0	2.3
Balance, December 31, 2004	12.7	127.4
Provision for losses	**.3**	**40.4**
Net losses	**(.5)**	**(19.3)**
Currency translation	**(1.6)**	**(3.3)**
Balance, December 31, 2005	**$ 10.9**	**$ 145.2**

The Company's customers are principally concentrated in the transportation industry in North America and Europe. There are no significant concentrations of credit risk in terms of a single customer. Generally, Financial Services and trade receivables are collateralized by the related equipment and parts.

F. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment include the following:

	2005	2004
Land	**$ 123.6**	$ 105.6
Buildings	**633.3**	625.4
Machinery and equipment	**1,569.7**	1,477.1
	2,326.6	2,208.1
Less allowance for depreciation	**(1,183.6)**	(1,170.3)
	$1,143.0	$1,037.8

Property, plant and equipment are stated at cost. Depreciation is computed principally by the straight-line method based upon the estimated useful lives of the various classes of assets, which range as follows:

Buildings	30-40 years
Machinery and equipment	5-12 years

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December 31, 2005, 2004 and 2003 (currencies in millions)

G. EQUIPMENT ON OPERATING LEASES

The Company leases equipment under operating leases to customers in the financial services segment. In addition, in the truck segment, equipment sold to customers in Europe subject to a residual value guarantee (RVG) is accounted for as operating leases. Equipment is recorded at cost and is depreciated on the straight-line basis to the lower of the estimated residual value or guarantee value. Lease and guarantee periods generally range from three to seven years. Estimated useful lives of the equipment range from five to ten years. The Company reviews residual values of equipment on operating leases periodically to determine that recorded amounts are appropriate.

Truck and Other:

Equipment on operating leases is as follows:

	2005	2004
Equipment on lease	$493.4	$649.0
Less allowance for depreciation	(132.4)	(176.9)
	$361.0	$472.1

When the equipment is sold subject to an RVG, the full sales price is received from the customer. A liability is established for the residual value obligation with the remainder of the proceeds recorded as deferred lease revenue. These amounts are summarized below:

	2005	2004
Deferred lease revenues	$163.4	$191.5
Residual value guarantee	247.0	334.7
	$410.4	$526.2

The deferred lease revenue is amortized on a straight-line basis over the RVG contract period. At December 31, 2005, the annual amortization of deferred revenue beginning January 1, 2006, is $68.1, $48.5, $28.0, $12.6, $5.2 and $1.0 thereafter. Annual maturities of the residual value guarantees beginning January 1, 2006, are $71.4, $72.6, $56.8, $27.1, $16.6 and $2.5 thereafter.

Financial Services:

Equipment on operating leases is as follows:

	2005	2004
Transportation equipment	$1,130.7	$ 930.4
Less allowance for depreciation	(284.8)	(214.0)
	$ 845.9	$ 716.4

Annual minimum lease payments due on operating leases beginning January 1, 2006, are $225.3, $142.9, $92.4, $39.5, $11.8 and $.8 thereafter.

H. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses include the following:

	2005	2004
Truck and Other:		
Accounts payable	$ 983.2	$ 964.0
Salaries and wages	137.2	130.0
Product support reserves	253.3	247.0
Other	461.2	453.4
	$1,834.9	$1,794.4

I. PRODUCT SUPPORT RESERVES

Product support reserves include warranty reserves related to new products sales, as well as reserves related to optional extended warranties and repair and maintenance (R&M) contracts. The Company generally offers one-year warranties covering most of its vehicles and related aftermarket parts. Specific terms and conditions vary depending on the product and the country of sale. Optional extended warranty and R&M contracts can be purchased for periods which generally range up to five years. Warranty expenses and reserves are estimated and recorded at the time products or contracts are sold based on historical data regarding the source, frequency and cost of claims. PACCAR periodically assesses the adequacy of its recorded liabilities and adjusts the reserves as appropriate to reflect actual experience.

Changes in warranty and R&M reserves are summarized as follows:

	2005	2004
Beginning balance	$ 348.8	$ 300.5
Cost accruals and revenue deferrals	268.4	246.9
Payments and revenue recognized	(228.0)	(218.6)
Currency translation	(30.3)	20.0
	$ 358.9	$ 348.8

December 31, 2005, 2004 and 2003 (currencies in millions)

Warranty and R&M reserves are included in the accompanying consolidated balance sheets as follows:

	2005	2004
Truck and Other:		
Accounts payable and accrued expenses	$ 253.3	$ 247.0
Deferred taxes and other liabilities	34.3	32.5
Financial Services:		
Deferred taxes and other liabilities	71.3	69.3
	$ 358.9	$ 348.8

J. LEASES

The Company leases certain facilities, computer equipment and aircraft under operating leases. Leases expire at various dates through the year 2019.

Annual minimum rent payments under non-cancelable operating leases having initial or remaining terms in excess of one year at January 1, 2006, are $32.1, $20.5, $12.5, $5.9, $3.4 and $7.5 thereafter.

Total rental expenses under all leases amounted to $42.3, $34.3 and $29.9 for 2005, 2004 and 2003.

K. BORROWINGS AND CREDIT ARRANGEMENTS

Borrowings include the following:

	EFFECTIVE RATE	2005	2004
Truck and Other:			
Long-term debt:			
Commercial paper	5.7%	$ 8.6	$ 16.7
Noninterest bearing notes		20.2	19.5
		28.8	36.2
Less current portion	5.7%	(8.6)	(8.4)
		$ 20.2	$ 27.8

Long-term debt of $8.6 matures in 2006 and $20.2 matures in 2011.

	EFFECTIVE RATE	2005	2004
Financial Services:			
Commercial paper	4.0%	$3,566.3	$2,480.0
Bank loans	5.0%	2.3	22.0
		$3,568.6	$2,502.0
Term debt:			
Fixed rate	7.0%	$ 127.3	$ 100.5
Floating rate	3.6%	2,530.2	2,186.1
		$2,657.5	$2,286.6

The effective rate is the weighted average rate as of December 31, 2005, and includes the effects of interest-rate agreements.

Annual maturities of term debt beginning January 1, 2006, are $1,742.2, $393.4, $388.9, $132.0 and $1.0. Maturities for 2006 include $100.0 of floating rate extendible notes, which were issued in 2005. The extendible notes have an initial maturity of 13 months, which can be extended at the investor's option to a final maturity of five years.

Consolidated:

Interest paid on consolidated borrowings was $204.0, $134.4 and $137.9 in 2005, 2004 and 2003.

The weighted average interest rate on consolidated commercial paper and bank loans was 4.0%, 3.4% and 3.5% at December 31, 2005, 2004 and 2003.

The primary sources of borrowings are commercial paper and medium-term notes issued in the public markets. The medium-term notes are issued by PACCAR Financial Corp. (PFC) and PACCAR Financial Europe (PFE). PFC periodically files a shelf registration under the Securities Act of 1933. PFC filed a $3,000.0 shelf registration that became effective in 2004. On December 31, 2005, $1,300.0 of debt remained available for issuance. In September 2005, PFE registered a €1,000.0 euro medium-term note program with the London Stock Exchange. On December 31, 2005, €341.1 of such securities remained available under the program.

The Company has line of credit arrangements of $1,695.1. Included in these arrangements is a $1,500 bank facility, of which $500 matures in 2006 and $1,000 matures in 2010. The unused portion of these credit lines was $1,615.2 at December 31, 2005, of which the majority is maintained to provide backup liquidity for commercial paper borrowings of the financial services companies. Compensating balances are not required on the lines, and service fees are immaterial.

December 31, 2005, 2004 and 2003 (currencies in millions)

L. EMPLOYEE BENEFIT PLANS

PACCAR has several defined benefit pension plans, which cover a majority of its employees.

The Company evaluates its actuarial assumptions on an annual basis and considers changes based upon market conditions and other factors.

The Company funds its pensions in accordance with applicable employee benefit and tax laws. The Company contributed $63.7 to its pension plans in 2005 and $58.4 in 2004. The Company expects to contribute in the range of $30.0 to $70.0 to its pension plans in 2006, of which $13.5 is estimated to satisfy minimum funding requirements. Annual benefits expected to be paid beginning January 1, 2006, are $32.6, $33.0, $37.3, $40.4, $44.1, and for the five years thereafter, a total of $286.7.

Plan assets are invested in a diversified mix of equity and debt securities through professional investment managers with the objective to achieve targeted risk adjusted returns and maintain liquidity sufficient to fund current benefit payments. Allocation of plan assets may change over time based upon investment manager determination of the relative attractiveness of equity and debt securities. The Company periodically assesses allocation of plan assets by investment type and evaluates external sources of information regarding the long-term historical returns and expected future returns for each investment type.

The following information details the allocation of plan assets by investment type:

		Actual	
	Target	2005	2004
Plan assets allocation as of December 31:			
Equity securities	55 - 65%	**63.9%**	62.9%
Debt securities	35 - 45%	**36.1**	37.1
Total		**100.0%**	100.0%

The following additional data relate to all pension plans of the Company, except for certain multi-employer and foreign-insured plans:

	2005	2004
Weighted Average Assumptions as of December 31:		
Discount rate	**5.5%**	5.7%
Rate of increase in future compensation levels	**4.2%**	4.2%
Assumed long-term rate of return on plan assets	**7.4%**	7.4%

	2005	2004
Change in Projected Benefit Obligation:		
Benefit obligation at January 1	**$ 935.2**	$ 799.3
Service cost	**40.8**	32.2
Interest cost	**52.8**	48.4
Benefits paid	**(29.4)**	(33.0)
Actuarial loss	**61.0**	64.8
Currency translation	**(19.7)**	16.7
Participant contributions	**3.9**	3.8
Plan amendment		3.0
Projected benefit obligation at December 31	**$1,044.6**	$ 935.2
Change in Plan Assets:		
Fair value of plan assets at January 1	**$ 880.3**	$ 763.9
Employer contributions	**63.7**	58.4
Actual return on plan assets	**75.4**	77.5
Benefits paid	**(29.4)**	(33.0)
Currency translation	**(20.2)**	9.7
Participant contributions	**3.9**	3.8
Fair value of plan assets at December 31	**$ 973.7**	$ 880.3
Funded Status at December 31:		
Funded status	**$ (70.9)**	$ (54.9)
Unrecognized actuarial loss	**220.1**	184.1
Unrecognized prior service cost	**17.7**	21.0
Unrecognized net initial obligation	**2.2**	2.2
Net pension asset	**$ 169.1**	$ 152.4
Amounts Recorded in Balance Sheet:		
Prepaid benefit	**$ 160.3**	$ 171.0
Accrued benefit liability	**(30.9)**	(39.9)
Intangible asset	**6.5**	8.3
Accumulated other comprehensive loss	**33.2**	13.0
Net pension asset	**$ 169.1**	$ 152.4

The projected benefit obligation includes $38.6 at December 31, 2005, and $33.3 at December 31, 2004, related to an unfunded supplemental plan.

The accumulated benefit obligation for all pension plans of the Company, except for certain multi-employer and foreign-insured plans, was $904.9 at December 31, 2005, and $806.8 at December 31, 2004.

December 31, 2005, 2004 and 2003 (currencies in millions)

	2005	2004	2003
Components of Pension Expense:			
Service cost	**$ 40.8**	$ 32.2	$ 27.0
Interest on projected benefit obligation	**52.8**	48.5	44.2
Expected return on assets	**(64.1)**	(59.5)	(48.5)
Amortization of prior service costs	**3.6**	3.4	2.9
Recognized actuarial loss	**9.2**	3.8	4.1
Other	**.1**	.2	.3
Net pension expense	**$ 42.4**	$ 28.6	$ 30.0

Pension expense for multi-employer and foreign-insured plans was $29.0, $24.9 and $19.3 in 2005, 2004 and 2003.

The Company has certain defined contribution benefit plans whereby it generally matches employee contributions of 2% to 5% of base wages. The majority of participants in these plans are non-union employees located in the United States. Expenses for these plans were $20.6, $18.5 and $16.1 in 2005, 2004 and 2003.

The Company also provides coverage of approximately 50% of medical costs for the majority of its U.S. employees from retirement until age 65 as well as a nominal death benefit.

The following data relate to unfunded postretirement medical and life insurance plans:

	2005	2004
Unfunded Status at December 31:		
Unfunded status	**$ (76.7)**	$ (69.3)
Unrecognized actuarial loss	**19.8**	18.5
Unrecognized prior service cost	**.6**	.8
Unrecognized net initial obligation	**2.8**	3.2
Accrued postretirement benefits	**$ (53.5)**	$ (46.8)

	2005	2004
Change in Projected Benefit Obligation:		
Benefit obligation at January 1	**$ 69.3**	$ 51.2
Service cost	**3.6**	2.6
Interest cost	**4.2**	3.7
Benefits paid	**(1.4)**	(1.9)
Actuarial loss	**1.0**	13.7
Projected benefit obligation at December 31	**$ 76.7**	$ 69.3

	2005	2004	2003
Components of Retiree Expense:			
Service cost	**$ 3.6**	$ 2.6	$ 1.7
Interest cost	**4.2**	3.7	2.9
Recognized actuarial loss	**1.5**	.7	
Recognized prior service cost	**.2**	.1	.1
Recognized net initial obligation	**.4**	.5	.5
Net retiree expense	**$ 9.9**	$ 7.6	$ 5.2

The discount rate used for calculating the accumulated plan benefits was 5.6% for 2005 and 5.8% for 2004. In 2005 the assumed long-term medical inflation rate was 12% declining to 6% over six years. In 2004 the rate assumption was 7% for all future years. Annual benefits expected to be paid beginning January 1, 2006, are $2.8, $3.2, $3.7, $4.3, $5.0 and for the five years thereafter, a total of $35.5.

Assumed health care cost trends have an effect on the amounts reported for the postretirement health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1% INCREASE	1% DECREASE
Effect on annual total of service and interest cost components	$ 1.0	$ (.8)
Effect on accumulated postretirement benefit obligation	$ 7.6	$ (6.6)

December 31, 2005, 2004 and 2003 (currencies in millions)

M. INCOME TAXES

	2005	2004	2003
Income Before Income Taxes:			
Domestic	$ 960.3	$ 643.5	$273.6
Foreign	813.3	724.7	531.9
	$1,773.6	$1,368.2	$805.5
Provision for Income Taxes:			
Current provision:			
Federal	$ 330.7	$ 139.9	$ 53.6
State	41.9	22.1	13.4
Repatriated earnings	64.0		
Foreign	257.7	251.4	195.8
	694.3	413.4	262.8
Deferred (benefit) provision:			
Federal	(35.7)	64.7	33.4
State	.4	6.7	
Foreign	(18.6)	(23.4)	(17.2)
	(53.9)	48.0	16.2
	$ 640.4	$ 461.4	$279.0
Reconciliation of Statutory U.S. Federal Tax to Actual Provision:			
Statutory rate	35%	35%	35%
Statutory tax	$ 620.8	$ 478.9	$281.9
Effect of:			
State income taxes	27.5	18.7	8.7
Repatriated earnings	64.0		
Foreign income taxes	(45.3)	(25.7)	(4.6)
Other, net	(26.6)	(10.5)	(7.0)
	$ 640.4	$ 461.4	$279.0

The American Jobs Creation Act of 2004 (AJCA) created a special 85% tax deduction available during 2005 for certain repatriated foreign earnings that are reinvested in qualifying domestic activities, as defined in the AJCA. PACCAR repatriated $1.5 billion of foreign earnings in 2005. In accordance with FASB Staff Position No. 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the AJCA*, a provision of $64.0 for the repatriation of foreign earnings was recorded as current income tax expense during the second quarter of 2005. United States income taxes are not provided on any remaining undistributed earnings of the Company's foreign subsidiaries because of the intent to reinvest these earnings indefinitely. The amount of undistributed earnings, which are considered to be indefinitely reinvested, is $1.68 billion at December 31, 2005.

During 2005, the Company generated $50.0 in U.S. foreign tax credit carryforwards, which expire in 2015. The Company does not expect to utilize these credits, and accordingly, recorded a valuation reserve for the full amount in 2005.

At December 31, 2005, the Company's net tax operating loss carryforwards were $221.2. Substantially all of the loss carryforwards are in foreign subsidiaries and carry forward indefinitely, subject to certain limitations under applicable laws. The future tax benefits of net operating loss carryforwards are evaluated on an ongoing basis, including a review of historical and projected operating results. During 2004, the Company's evaluation resulted in a $9.5 reduction in the valuation reserve related to net operating loss carryforwards at its subsidiary Leyland Trucks Ltd. in the United Kingdom.

At December 31:	2005	2004
Components of Deferred Tax Assets (Liabilities):		
Assets:		
Provisions for accrued expenses	$ 232.3	$ 210.9
Net operating loss carryforwards	64.5	81.5
Allowance for losses on receivables	50.8	43.2
U.S. foreign tax credit carryforward	50.0	
Foreign product development costs	41.1	36.3
Other	71.7	25.3
	510.4	397.2
Valuation reserve	(95.5)	(56.0)
	414.9	341.2
Liabilities:		
Financial Services leasing depreciation	(343.9)	(338.4)
Depreciation and amortization	(91.5)	(85.4)
Pension	(56.2)	(42.2)
Other	(68.2)	(56.8)
	(559.8)	(522.8)
Net deferred tax liability	$(144.9)	$(181.6)

At December 31:	2005	2004
Classification of Deferred Tax Assets (Liabilities):		
Truck and Other:		
Deferred taxes and other current assets	$ 132.4	$ 82.4
Other noncurrent assets	43.6	59.5
Deferred taxes and other liabilities	(22.1)	(35.5)
Financial Services:		
Other assets	27.8	28.3
Deferred taxes and other liabilities	(326.6)	(316.3)
Net deferred tax liability	$(144.9)	$(181.6)

Cash paid for income taxes was $722.0, $418.7 and $246.0 in 2005, 2004 and 2003.

December 31, 2005, 2004 and 2003 (currencies in millions)

N. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Company in determining its fair value disclosures for financial instruments:

Cash and Equivalents: The carrying amount reported in the balance sheet is stated at fair value.

Marketable Debt and Equity Securities: Amounts are carried at fair value, based on quoted market prices (see Note B).

Financial Services Net Receivables: For floating-rate loans and wholesale financings, fair values approximate carrying values. For fixed-rate loans, fair values are estimated using discounted cash flow analysis based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The carrying amount of accrued interest and other receivables approximates its fair value. Finance lease receivables and the related loss provisions have been excluded from the accompanying table.

Short- and Long-term Debt: The carrying amount of commercial paper and short-term bank borrowings and floating-rate, long-term debt approximates fair value. The fair value of fixed-rate, long-term debt is estimated using discounted cash flow analysis, based on current rates for similar types and maturities of debt.

Derivative Instruments: Derivative instruments are carried at fair value. Fair values for interest-rate contracts are based on amounts that would be paid or received to terminate agreements outstanding at December 31, 2005 (see Note P). The fair value of outstanding foreign exchange contracts is the amount the Company would receive or pay to terminate the contracts. This amount is calculated using quoted market rates.

Trade Receivables and Payables: Carrying amounts approximate fair value.

Balance sheet captions, which include financial instruments that are not carried at fair value, are as follows:

2005	CARRYING AMOUNT	FAIR VALUE
Truck and Other:		
Long-term debt	**$ 28.8**	**$ 26.8**
Financial Services:		
Net receivables	**4,954.5**	**4,909.4**
Term debt	**2,657.5**	**2,657.3**
2004		
Truck and Other:		
Long-term debt	$ 36.2	$ 34.6
Financial Services:		
Net receivables	4,185.1	4,172.0
Term debt	2,286.6	2,286.5

O. COMMITMENTS AND CONTINGENCIES

The Company is involved in various stages of investigations and cleanup actions in different countries related to environmental matters. In certain of these matters, the Company has been designated as a "potentially responsible party" by domestic and foreign environmental agencies. The Company has provided for the estimated costs to investigate and complete cleanup actions where it is probable that the Company will incur such costs in the future.

While neither the timing nor the amount of the ultimate costs associated with future environmental cleanup can be determined, management does not expect that those matters will have a material adverse effect on the Company's consolidated financial position.

Expenditures related to environmental activities were $1.2 in 2005, $2.4 in 2004 and $1.2 in 2003. The Company's estimated range of reasonably possible costs to complete cleanup actions, where it is probable that the Company will incur such costs and where such amounts can be reasonably estimated, is between $19.2 and $44.2. The Company has established a reserve to provide for estimated future environmental cleanup costs.

At December 31, 2005, PACCAR had standby letters of credit of $31.3, which guarantee various insurance and financing activities. The Company is committed, under specific circumstances, to purchase equipment at a cost of $14.9 in 2006, $8.1 in 2007 and $30.1 in 2008. At December 31, 2005, PACCAR's financial services companies, in the normal course of business, had outstanding commitments to fund new loan and lease transactions amounting to $291.4. The commitments generally expire in 90 days. The Company had other commitments, primarily to purchase production inventory amounting to $11.2 in 2006, $9.3 annually from 2007 to 2010 and $2.2 in 2011.

PACCAR is a defendant in various legal proceedings and, in addition, there are various other contingent liabilities arising in the normal course of business. After consultation with legal counsel, management does not anticipate that disposition of these proceedings and contingent liabilities will have a material effect on the consolidated financial statements.

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6 **P. DERIVATIVE FINANCIAL INSTRUMENTS**

Derivative financial instruments are used as hedges to manage exposures to fluctuations in interest rates and foreign currency exchange rates. PACCAR's policies prohibit the use of derivatives for speculation or trading. The Company documents its hedge objectives, procedures and accounting treatment at the inception of and during the term of each hedge. Exposure limits and minimum credit ratings are used to minimize the risks of counterparty default, and the Company had no material exposures to default at December 31, 2005.

Interest-Rate Contracts: The Company enters into various interest-rate contracts, including interest-rate and basis swaps and cap agreements. Interest-rate contracts generally involve the exchange of fixed and floating rate interest payments. These contracts are used to manage exposures to fluctuations in interest rates. Net amounts paid or received are reflected as adjustments to interest expense. At December 31, 2005, the Company had 401 interest-rate contracts outstanding. The notional amount of these contracts totaled $3,927.7, with amounts expiring annually over the next six years. The notional amount is used to measure the volume of these contracts and does not represent exposure to credit loss. In the event of default by a counterparty, the risk in these transactions is the cost of replacing the interest-rate contract at current market rates. The total fair value of all interest-rate contracts amounted to an asset of $38.0 and a liability of $9.7 at December 31, 2005. Fair values at December 31, 2004, amounted to an asset of $16.2 and a liability of $34.6.

Notional maturities for all interest-rate contracts for the six years beginning January 1, 2006, are $1,306.7, $1,234.9, $914.3, $352.9, $106.9 and $12.0. The majority of these contracts are floating to fixed swaps that effectively convert an equivalent amount of commercial paper and other variable rate debt to fixed rates. The weighted average pay rate of 3.76% for the fixed rate swaps approximates the Company's net cost of funds. The weighted average receive rate of 4.10% for fixed rate swaps offsets rates on associated debt obligations. In addition, cross currency interest-rate swaps with a notional amount of $100.3 are used to hedge both the interest rate risk and the foreign exchange risk of Mexican peso-denominated debt.

Foreign Currency Exchange Contracts: PACCAR enters into foreign currency exchange contracts to hedge certain anticipated transactions denominated in foreign currencies, particularly the Canadian dollar, the euro, the British pound and the Mexican peso. Foreign exchange contracts mature within one year. PACCAR had net foreign exchange purchase contracts outstanding amounting to $321.1 and $399.6 U.S. dollars at December 31, 2005 and 2004. The fair value of these foreign exchange contracts was a liability of $.7 and an asset of $9.3 at December 31, 2005 and 2004.

Derivative assets are included in the accompanying consolidated balance sheets, in Truck and Other "Deferred taxes and other current assets" and Financial Services "Other assets." Derivative liabilities are included in Truck and Other "Accounts payable and accrued expenses" and "Deferred taxes and other liabilities" and in Financial Services "Accounts payable, accrued expenses and other."

Substantially all of the Company's interest-rate contracts and all of its foreign currency exchange contracts have been designated as cash flow hedges. Gains or losses on the effective portion of derivatives designated and qualifying as cash flow hedges that arise from changes in fair value are initially reported in other comprehensive income. Gains or losses on the ineffective portion of cash flow hedges are recognized currently in earnings and were immaterial for each of the three years ended December 31, 2005. Amounts in accumulated other comprehensive income are reclassified into net income in the same period in which the hedged forecasted transaction affects earnings. Net realized gains and losses from foreign exchange contracts are recognized as an adjustment to cost of sales or to financial services interest expense, consistent with the hedged transaction. Net realized gains and losses from interest-rate contracts are recognized as an adjustment to interest expense. Of the accumulated net gain included in other comprehensive income as of December 31, 2005, $12.3 is expected to be reclassified to interest expense in 2006. The fixed interest earned on finance receivables will offset the amount recognized in interest expense, resulting in a stable interest margin consistent with the Company's interest-rate risk management strategy.

In 2005, the Company entered into cross currency interest-rate swaps in connection with its financing operations in Mexico. These instruments have been designated and accounted for as fair value hedges. Unrealized gains and losses related to these interest-rate swaps, together with changes in the fair value of the underlying debt, are recognized and recorded as an adjustment to interest expense. Ineffectiveness from these hedges was immaterial during the year ended December 31, 2005.

Q. STOCK COMPENSATION PLANS

PACCAR has certain plans under which officers and key employees may be granted options to purchase shares of the Company's authorized but unissued common stock. Non-employee directors may be granted restricted shares of the Company's common stock. The maximum number of shares of the Company's common stock authorized for issuance under these plans is 20.7 million. As of December 31, 2005, the maximum number of shares available for future grants under these plans is 9.5 million. Options currently outstanding under these plans were granted with exercise prices equal to the fair market value of the Company's common stock at the date of grant. Options currently expire no later than 10 years from the grant date and generally vest within three years. Stock option activity is as follows:

	NUMBER OF SHARES	AVERAGE EXERCISE PRICE*
Outstanding at 12/31/02	4,523,300	$21.88
Granted	864,100	31.40
Exercised	(1,267,600)	19.31
Cancelled	(229,600)	26.45
Outstanding at 12/31/03	3,890,200	24.56
Granted	457,600	56.95
Exercised	(736,100)	20.78
Cancelled	(270,400)	32.66
Outstanding at 12/31/04	3,341,300	29.18
Granted	**414,600**	**72.25**
Exercised	**(484,400)**	**23.59**
Cancelled	**(101,900)**	**44.05**
Outstanding at 12/31/05	**3,169,600**	**$35.19**

The following tables summarize information about stock options outstanding and exercisable at December 31, 2005:

Stock Options Outstanding:

RANGE OF EXERCISE PRICES	NUMBER OF SHARES	REMAINING CONTRACTUAL LIFE IN YEARS	AVERAGE EXERCISE PRICE*
$11.00-18.56	463,500	2.5	$16.28
22.94-23.90	725,300	4.2	23.29
28.20-31.40	1,181,400	6.5	29.96
56.95	396,300	8.0	56.95
72.25	403,100	9.0	72.25
	3,169,600	5.9	$35.19

Stock Options Exercisable:

RANGE OF EXERCISE PRICES	NUMBER OF SHARES	AVERAGE EXERCISE PRICE*
$11.00-18.56	463,500	$16.28
22.94-23.90	725,300	23.29
28.20	531,300	28.20
	1,720,100	$22.92

*Weighted Average

See Note A for additional information regarding estimated fair values, Black-Scholes-Merton option pricing assumptions and pro forma net income and earnings per share amounts.

Diluted Earnings Per Share: The following table shows the additional shares added to weighted average basic shares outstanding to calculate diluted earnings per share. These amounts primarily represent the dilutive effect of stock options.

	2005	2004	2003
Additional shares	**1,103,500**	1,188,600	1,218,600

Options outstanding at each year-end with exercise prices in excess of the respective year's average common stock market price (antidilutive options) have been excluded from the diluted earnings per share calculation. Antidilutive options amounted to 403,100 in 2005, 428,300 in 2004 and none in 2003.

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December 31, 2005, 2004 and 2003 (currencies in millions except share amounts)

R. STOCKHOLDERS' EQUITY

Stockholder Rights Plan: The plan provides one right for each share of PACCAR common stock outstanding. Rights become exercisable if a person publicly announces the intention to acquire 15% or more of PACCAR's common stock or if a person (Acquiror) acquires such amount of common stock. In all cases, rights held by the Acquiror are not exercisable. When exercisable, each right entitles the holder to purchase for two hundred dollars a fractional share of Series A Junior Participating Preferred Stock. Each fractional preferred share has dividend, liquidation and voting rights which are no less than those for a share of common stock. Under certain circumstances, the rights may become exercisable for shares of PACCAR common stock or common stock of the Acquiror having a market value equal to twice the exercise price of the right. Also under certain circumstances, the Board of Directors may exchange exercisable rights, in whole or in part, for one share of PACCAR common stock per right. The rights, which expire in the year 2009, may be redeemed at one cent per right, subject to certain conditions. For this plan, 50,000 preferred shares are reserved for issuance. No shares have been issued.

Accumulated Other Comprehensive Income: Following are the components of accumulated other comprehensive income:

	2005	2004	2003
Minimum pension liability adjustment	$ (33.2)	$ (13.0)	$ (5.0)
Deferred tax asset	12.4	4.5	1.8
	(20.8)	(8.5)	(3.2)
Unrealized gain (loss) on derivative contracts	32.7	(5.4)	(24.9)
Deferred tax (liability) asset	(12.0)	1.3	9.8
	20.7	(4.1)	(15.1)
Unrealized (loss) gain on investments	(1.6)	.5	15.3
Deferred tax asset (liability)	.6	(.2)	(5.8)
	(1.0)	.3	9.5
Currency translation adjustment	155.8	323.4	156.7
Accumulated other comprehensive income	$154.7	$311.1	$147.9

Other Capital Stock Changes: During 2005 the Company acquired 5.5 million of its common shares, of which five million were retired. In 2004, the Company acquired and retired two million of its outstanding common shares.

Stock Dividend: On December 9, 2003, the Board of Directors declared a 50% common stock dividend payable on February 5, 2004, to stockholders of record on January 19, 2004, with fractional shares paid in cash. This resulted in the issuance of 58,398,302 additional shares and 583 fractional shares paid in cash.

December 31, 2005, 2004 and 2003 (currencies in millions)

S. SEGMENT AND RELATED INFORMATION

PACCAR operates in two principal segments, Truck and Financial Services.

The Truck segment includes the manufacture of trucks and the distribution of related aftermarket parts, both of which are sold through a network of company-appointed dealers. This segment derives a large proportion of its revenues and operating profits from operations in North America and Europe.

The Financial Services segment is composed of finance and leasing products and services provided to truck customers and dealers. Revenues are primarily generated from operations in North America and Europe.

Included in All Other is PACCAR's industrial winch manufacturing business. Also within this category are other sales, income and expenses not attributable to a reportable segment, including a portion of corporate expense. Intercompany interest income on cash advances to the financial services companies is included in All Other and was $15.7, $10.8 and $9.3 for 2005, 2004 and 2003. Geographic revenues from external customers are presented based on the country of the customer.

PACCAR evaluates the performance of its Truck segment based on operating profits, which excludes investment income, other income and expense and income taxes. The Financial Services segment's performance is evaluated based on income before income taxes.

Geographic Area Data	2005	2004	2003
Revenues:			
United States	**$ 7,161.8**	$ 5,414.2	$3,653.9
Continental Europe	**2,889.5**	2,640.3	1,928.3
United Kingdom	**1,206.7**	1,085.6	872.3
Other	**2,799.4**	2,256.2	1,740.4
	$14,057.4	$11,396.3	$8,194.9
Long-lived assets:			
Property, plant and equipment, net			
United States	**$ 443.0**	$ 424.7	$ 371.8
The Netherlands	**308.4**	276.8	217.5
Other	**391.6**	336.3	304.1
	$ 1,143.0	$ 1,037.8	$ 893.4
Goodwill and other intangibles, net			
The Netherlands	**$ 105.7**	$ 122.7	$ 121.2
Other	**1.3**	1.3	1.2
	$ 107.0	$ 124.0	$ 122.4

Geographic Area Data	2005	2004	2003
Equipment on operating leases, net			
United States	**$ 400.7**	$ 340.9	$ 198.7
United Kingdom	**206.6**	278.8	301.8
France	**130.7**	157.0	155.3
Other	**468.9**	411.8	310.0
	$ 1,206.9	$ 1,188.5	$ 965.8

Business Segment Data	2005	2004	2003
Net sales and revenues:			
Truck			
Total	**$13,559.4**	$11,081.8	$7,894.3
Less intersegment	**(363.3)**	(319.5)	(233.1)
External customers	**13,196.1**	10,762.3	7,661.2
All Other	**102.3**	71.4	59.9
	13,298.4	10,833.7	7,721.1
Financial Services	**759.0**	562.6	473.8
	$14,057.4	$11,396.3	$8,194.9
Income before income taxes:			
Truck	**$ 1,520.2**	$ 1,145.0	$ 655.4
All Other	**(3.4)**	(5.1)	(14.8)
	1,516.8	1,139.9	640.6
Financial Services	**199.9**	168.4	123.6
Investment income	**56.9**	59.9	41.3
	$ 1,773.6	$ 1,368.2	$ 805.5
Depreciation and amortization:			
Truck	**$ 190.3**	$ 182.1	$ 174.1
Financial Services	**166.6**	124.0	83.3
All Other	**13.2**	8.9	10.1
	$ 370.1	$ 315.0	$ 267.5
Expenditures for long-lived assets:			
Truck	**$ 419.3**	$ 222.7	$ 127.2
Financial Services	**413.7**	386.1	228.1
Other	**15.5**	24.7	14.0
	$ 848.5	$ 633.5	$ 369.3
Segment assets:			
Truck	**$ 2,955.8**	$ 2,889.3	$2,470.6
Other	**187.9**	174.5	163.3
Cash and marketable securities	**2,215.8**	2,184.1	1,700.3
	5,359.5	5,247.9	4,334.2
Financial Services	**8,355.9**	6,980.1	5,605.4
	$13,715.4	$12,228.0	$9,939.6

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of PACCAR Inc (the Company) is responsible for establishing and maintaining satisfactory internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management assessed the Company's internal control over financial reporting as of December 31, 2005, based on criteria for effective internal control over financial reporting described in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, we concluded that the Company maintained effective internal control over financial reporting as of December 31, 2005.

Management's assessment of the effectiveness of the Company's internal control over financial reporting has been audited by Ernst & Young LLP, an Independent Registered Public Accounting Firm, as stated in their report.

Mark Pigott

Mark C. Pigott
Chairman and Chief Executive Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS

Board of Directors and Stockholders
PACCAR Inc

We have audited the accompanying consolidated balance sheets of PACCAR Inc as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity, comprehensive income and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PACCAR Inc at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of PACCAR Inc's internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 17, 2006, expressed an unqualified opinion thereon.

Ernst + Young LLP

Seattle, Washington
February 17, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON THE COMPANY'S INTERNAL CONTROLS

Board of Directors and Stockholders
PACCAR Inc

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that PACCAR Inc maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). PACCAR Inc's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that PACCAR Inc maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, PACCAR Inc maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of PACCAR Inc as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity, comprehensive income and cash flows for each of the three years in the period ended December 31, 2005, of PACCAR Inc, and our report dated February 17, 2006, expressed an unqualified opinion thereon.

Seattle, Washington
February 17, 2006

Ernst & Young LLP

PACCAR 00053

SELECTED FINANCIAL DATA

	2005	2004	2003	2002	2001
			(millions except per share data)		
Truck and Other Net Sales					
and Revenues	**$ 13,298.4**	$10,833.7	$ 7,721.1	$ 6,786.0	$ 5,641.7
Financial Services Revenues	**759.0**	562.6	473.8	432.6	458.8
Total Revenues	**$ 14,057.4**	$11,396.3	$ 8,194.9	$ 7,218.6	$ 6,100.5
Net Income	**$ 1,133.2**	$ 906.8	$ 526.5	$ 372.0	$ 173.6
Net Income Per Share:					
Basic	**6.60**	5.19	3.01	2.15	1.01
Diluted	**6.56**	5.16	2.99	2.13	1.00
Cash Dividends Declared	**2.87**	2.75	1.37	1.00	.64
Total Assets:					
Truck and Other	**5,359.5**	5,247.9	4,334.2	3,590.2	3,155.4
Financial Services	**8,355.9**	6,980.1	5,605.4	5,112.3	4,758.5
Truck and Other Long-Term Debt	**20.2**	27.8	33.7	33.9	40.7
Financial Services Debt	**6,226.1**	4,788.6	3,786.1	3,527.6	3,426.2
Stockholders' Equity	**3,901.1**	3,762.4	3,246.4	2,600.7	2,252.6

COMMON STOCK MARKET PRICES AND DIVIDENDS

Common stock of the Company is traded on the NASDAQ National Market under the symbol PCAR. The table below reflects the range of trading prices as reported by NASDAQ and cash dividends declared. There were 2,187 record holders of the common stock at December 31, 2005.

	2005			2004		
	CASH DIVIDENDS	STOCK PRICE		CASH DIVIDENDS	STOCK PRICE	
QUARTER	DECLARED	HIGH	LOW	DECLARED	HIGH	LOW
First	**$ .20**	**$81.38**	**$68.50**	$ .15	$59.82	$49.61
Second	**.21**	**74.04**	**63.84**	.20	60.70	51.00
Third	**.21**	**76.61**	**66.21**	.20	69.25	52.95
Fourth	**.25**	**73.59**	**63.30**	.20	81.42	62.00
Year-End Extra	**2.00**			2.00		

The Company expects to continue paying regular cash dividends, although there is no assurance as to future dividends because they are dependent upon future earnings, capital requirements and financial conditions.

QUARTERLY RESULTS (UNAUDITED)

	QUARTER			
	FIRST	SECOND	THIRD	FOURTH
	(millions except per share data)			
2005				
Truck and Other Net Sales and Revenues	**$3,154.6**	**$3,372.9**	**$3,345.4**	**$3,425.5**
Truck and Other Gross Profit (Before SG&A and Interest)	**464.9**	**496.5**	**502.9**	**493.6**
Financial Services Revenues	**171.4**	**182.5**	**195.6**	**209.5**
Financial Services Gross Profit (Before SG&A)	**75.1**	**80.0**	**83.2**	**86.9**
Net Income (1)	**274.0**	**241.5**	**304.8**	**312.9**
Net Income Per Share (2):				
Basic	**$ 1.57**	**$ 1.40**	**$ 1.79**	**$ 1.85**
Diluted	**1.56**	**1.39**	**1.78**	**1.83**
2004				
Truck and Other Net Sales and Revenues	$2,374.3	$2,653.4	$2,774.7	$3,031.3
Truck and Other Gross Profit (Before SG&A and Interest)	330.8	398.2	395.8	440.3
Financial Services Revenues	127.0	133.4	143.1	159.1
Financial Services Gross Profit (Before SG&A)	59.6	64.4	69.0	73.5
Net Income (3)	182.2	236.5	246.7	241.4
Net Income Per Share (2):				
Basic	$ 1.04	$ 1.35	$ 1.42	$ 1.39
Diluted	1.03	1.34	1.41	1.38

(1) Second quarter net income includes a $64.0 income tax provision for repatriation of foreign earnings.

(2) The sum of quarterly per share amounts may not equal per share amounts reported for year-to-date periods. This is due to changes in the number of weighted shares outstanding and the effects of rounding for each period.

(3) Fourth quarter net income includes $23.3 for costs associated with the termination of an agreement regarding distribution of Leyland parts in the United Kingdom and $5.4 for a gain on the sale of real estate.

Third quarter net income includes a $9.5 tax benefit related to higher expected utilization of net operating loss carryforwards in the United Kingdom.

(currencies in millions)

Interest Rate Risks – *See Note P for a description of the Company's hedging programs and exposure to interest rate fluctuations.* The Company measures its interest rate risk by estimating the amount by which the fair value of interest rate sensitive assets and liabilities, including derivative financial instruments, would change assuming an immediate 100 basis point increase across the yield curve as shown in the following table:

Fair Value Gains (Losses)	2005	2004
CONSOLIDATED:		
Assets		
Cash equivalents and marketable securities	$ (6.1)	$ (9.9)
TRUCK AND OTHER:		
Liabilities		
Borrowings and related swaps:		
Long-term debt	.6	.7
Interest rate swaps related to commercial paper classified as long-term debt	(0.1)	.2
FINANCIAL SERVICES:		
Assets		
Loans and wholesale financing, net of unearned interest, less allowance for losses	(46.7)	(40.2)
Liabilities		
Term debt	.9	.9
Interest rate swaps related to financial services debt	54.6	45.0
Total	$ 3.2	$ (3.3)

Currency Risks – The Company enters into foreign exchange forward contracts to hedge its exposure to exchange rate fluctuations of foreign currencies, particularly the Canadian dollar, the euro, the British pound and the Mexican peso *(See Note P for additional information concerning these hedges)*. The Company uses a sensitivity analysis to evaluate its exposure to foreign currency exchange rate fluctuations. This analysis measures the potential gain or loss in the fair value of forward contracts based on a percentage increase or decrease in exchange rates relative to the U.S. dollar. A hypothetical 10% weakening of the U.S. dollar relative to all other currencies would result in a potential unrealized loss of $31.3 related to contracts outstanding at December 31, 2005, compared to $17.9 at December 31, 2004. These amounts would be largely offset by changes in the values of the underlying hedged exposures.

OFFICERS AND DIRECTORS

OFFICERS

Mark C. Pigott
Chairman and
Chief Executive Officer

Michael A. Tembreull
Vice Chairman

Thomas E. Plimpton
President

James G. Cardillo
Senior Vice President

Kenneth R. Gangl
Senior Vice President

Ronald E. Armstrong
Vice President and Controller

David C. Anderson
Vice President and
General Counsel

Richard E. Bangert, II
Vice President

Robert J. Christensen
Vice President

Aad Goudriaan
Vice President

Timothy M. Henebry
Vice President

William D. Jackson
Vice President

Thomas A. Lundahl
Vice President

Helene N. Mawyer
Vice President

Janice B. Skredsvig
Vice President and
Chief Information Officer

Daniel D. Sobic
Vice President

George E. West, Jr.
Vice President

Andrew J. Wold
Treasurer

Janice M. D'Amato
Secretary

DIRECTORS

Mark C. Pigott
Chairman and
Chief Executive Officer
PACCAR Inc (3)

Alison J. Carnwath
Chairman, Management Board
ISIS Equity Partners, LLP (2)

John M. Fluke, Jr.
Chairman
Fluke Capital Management, L.P. (1,2)

David K. Newbigging OBE
Chairman
Talbot Holdings Limited (2,4)

Stephen F. Page
Retired Vice Chairman and
Chief Financial Officer
United Technologies Corporation (1,4)

Robert T. Parry
Retired President and
Chief Executive Officer
Federal Reserve Bank
of San Francisco (2)

James C. Pigott
President
Pigott Enterprises, Inc. (3,4)

William G. Reed, Jr.
Retired Chairman
Simpson Investment Company (1,3)

Michael A. Tembreull
Vice Chairman
PACCAR Inc

Harold A. Wagner
Retired Chairman
Air Products and Chemicals, Inc. (1)

COMMITTEES OF THE BOARD

(1) AUDIT COMMITTEE
(2) COMPENSATION COMMITTEE
(3) EXECUTIVE COMMITTEE
(4) NOMINATING COMMITTEE

TRUCKS

Kenworth Truck Company
Division Headquarters:
10630 N.E. 38th Place
Kirkland, Washington 98033

Factories:
Chillicothe, Ohio
Renton, Washington

Peterbilt Motors Company
Division Headquarters:
1700 Woodbrook Street
Denton, Texas 76205

Factories:
Denton, Texas
Madison, Tennessee

PACCAR of Canada Ltd.
Markborough Place I
6711 Mississauga Road N.
Mississauga, Ontario
L5N 4J8 Canada

Factory:
Ste-Thérèse, Quebec

Canadian Kenworth Company
Division Headquarters:
Markborough Place I
6711 Mississauga Road N.
Mississauga, Ontario
L5N 4J8 Canada

Peterbilt of Canada
Division Headquarters:
Markborough Place I
6711 Mississauga Road N.
Mississauga, Ontario
L5N 4J8 Canada

DAF Trucks N.V.
Hugo van der Goeslaan 1
P O Box 90065
5600 PT Eindhoven
The Netherlands

Factories:
Eindhoven,
The Netherlands
Westerlo, Belgium

Leyland Trucks Ltd.
Croston Road
Leyland, Preston
Lancs PR26 6LZ
United Kingdom

Factory:
Leyland, Lancashire

Kenworth Méxicana, S.A. de C.V.
Kilometro 10.5
Carretera a San Luis
Mexicali, Baja California
Mexico

Factory:
Mexicali, Baja California

PACCAR Australia Pty. Ltd. Kenworth Trucks
64 Canterbury Road
Bayswater, Victoria 3153
Australia

Factory:
Bayswater, Victoria

TRUCK PARTS AND SUPPLIES

PACCAR Parts
Division Headquarters:
750 Houser Way N.
Renton, Washington 98055

Dynacraft
Division Headquarters:
650 Milwaukee Avenue N.
Algona, Washington 98001

WINCHES

PACCAR Winch Division
Division Headquarters:
800 E. Dallas Street
Broken Arrow, Oklahoma
74012

Factories:
Broken Arrow, Oklahoma
Okmulgee, Oklahoma

PRODUCT TESTING, RESEARCH AND DEVELOPMENT

PACCAR Technical Center
Division Headquarters:
12479 Farm to Market Road
Mount Vernon, Washington
98273

DAF Trucks Test Center
Weverspad 2
5491 RL St. Oedenrode
The Netherlands

PACCAR FINANCIAL SERVICES GROUP

PACCAR Financial Corp.
PACCAR Building
777 106th Avenue N.E.
Bellevue, Washington 98004

PACCAR Financial Europe B.V.
Hugo van der Goeslaan 1
P.O. Box 90065
5600 PT Eindhoven
The Netherlands

PACCAR Capital México S.A. de C.V.
Kilometro 10.5
Carretera a San Luis
Mexicali, Baja California
Mexico

PacLease Méxicana S.A. de C.V.
Kilometro 10.5
Carretera a San Luis
Mexicali, Baja California
Mexico

PACCAR Financial Services Ltd.
Markborough Place I
6711 Mississauga Road N.
Mississauga, Ontario
L5N 4J8 Canada

PACCAR Financial Pty. Ltd.
64 Canterbury Road
Bayswater, Victoria 3153
Australia

PACCAR Leasing Company
Division of PACCAR
Financial Corp.
PACCAR Building
777 106th Avenue N.E.
Bellevue, Washington 98004

EXPORT SALES

PACCAR International
Division Headquarters:
PACCAR Building
777 106th Avenue N.E.
Bellevue, Washington 98004

Offices:
Beijing, People's Republic
of China
Jakarta, Indonesia
Manama, Bahrain
Miami, Florida
Sandbach, United Kingdom

Corporate Offices
PACCAR Building
777 106th Avenue N.E.
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98004

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Facsimile
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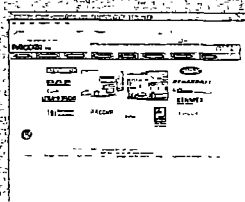
Homepage
http://www.paccar.com



Stock Transfer and Dividend Dispersing Agent
Wells Fargo Bank
Minnesota, N.A.
Shareowner Services
P.O. Box 64854
St. Paul, Minnesota
55164-0854
800.468.9716
www.wellsfargo.com/shareownerservices

PACCAR's transfer agent maintains the company's shareholder records, issues stock certificates and distributes dividends and IRS Form 1099. Requests concerning these matters should be directed to Wells Fargo.

Online Delivery of Annual Report and Proxy Statement
PACCAR's 2005 Annual Report and the 2006 Proxy Statement are available on PACCAR's Web site at www.paccar.com/financials.asp

Registered stockholders can sign up to receive future proxy statements and annual reports in electronic format, instead of receiving paper documents, by visiting www.econsent.com/pcar/

Stockholders who hold PACCAR stock in street name may inquire of their bank or broker about the availability of electronic delivery of annual meeting documents.

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Independent Auditors
Ernst & Young LLP
Seattle, Washington

SEC Form 10-K
PACCAR's annual report to the Securities and Exchange Commission will be furnished to stockholders on request to the Corporate Secretary, PACCAR Inc, P.O. Box 1518, Bellevue, Washington 98009. It is also available online at www.paccar.com/financials.asp, under SEC Filings.

Annual Stockholders' Meeting
April 25, 2006, 10:30 a.m.
Meydenbauer Center
11100 N.E. Sixth Street
Bellevue, Washington
98004

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